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THE STEEL INDUSTRY

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BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

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CONTENTS

Hearing day:

Page

July 6, 1984 ... 1

Statement of:

Alessi, Carl, Illinois legislative director, United Steel Workers of America, accompanied by Mike Ally, chairman, grievance committee, local 65, United States Steel South Works, Homewood, IL ... 194

Anderson, Lloyd, president, Land of Lincoln Soybean Association, Bloomington, IL ... 215

Blum, Charles H., Assistant U.S. Trade Representative for Industrial Trade Policy ... 5

Fitch, James, president, South Chicago Development Commission, accompanied by Marsha Wontor, board member, South Chicago Chamber of Commerce, editor, Southeast Shopper; and George Elliopoulis, member, South Chicago Chamber of Commerce, Chicago, IL ... 219

George, F.A., steel commodities manager, Caterpillar Tractor Co., Peoria, IL ... 198

Hanson, Robert F., president, Association of Steel Distributors, Chicago Heights, IL ... 213

Holmer, Alan F., Deputy Assistant Secretary for Import Administration, Department of Commerce ... 26

Luerssen, Frank W., chairman and president, Inland Steel Co., Chicago, IL ... 177

Peabody, Robert B., president, American Iron & Steel Institute, Washington, DC ... 42

Rentschler, William H., chairman/CEO, Jackson Forge Corp.; chairman/CEO Medart, Inc.; publisher, News/Voice Newspapers, Inc., Lake Forest, IL ... 208

Soble, David, president, Interstate Steel; member, government affairs committee, Steel Service Center Institute, Des Plaines, IL ... 212

Thomas, Robert, president, Thomas Steel, Lemont, IL ... 192

Insertions for the record:

Prepared statement of Charles H. Blum ... 10

Prepared statement of Alan F. Holmer ... 30

Prepared statement of Robert B. Peabody ... 48

Prepared statement of Frank W. Luerssen ... 181

Prepared statement of F.A. George ... 201

Prepared statement of Lloyd Anderson ... 216

THE STEEL INDUSTRY

FRIDAY, JULY 6, 1984

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Chicago, IL.

The committee met, pursuant to notice, at 10 a.m., at the Everett McKinley Dirksen Federal Building, 219 South Dearborn Street, Chicago, IL, Hon. Charles H. Percy (chairman of the committee) presiding.

Present: Senator Percy.

The **CHAIRMAN**. It gives me great pleasure to open these hearings today on a subject of global proportions with particular importance to the State of Illinois: The situation facing the steel industry.

This is not the first time the Senate Foreign Relations Committee has come to Illinois. Last November this committee received testimony in Rockford, IL, on the national security implications of the decline of our machine tool industry.

I might say that the decision of the Japanese, in the judgment of many, is to actually target the machine tool industry and subsidize the exports of products to the United States in order to reduce the percentage of market held by domestic suppliers.

Through that hearing, the Senate and I were able to gain a much better understanding of the needs of that industry and how this committee could help it.

As a followup, just last week Representative Lynn Martin and I met with White House Chief of Staff Jim Baker in an effort to stimulate action by the President aimed at solving the problems faced by the machine tool makers.

Clearly it is important that this committee be able to draw upon field sources in its deliberations on issues affecting our relations with other countries, as well as the national security.

As the largest steel-making center in the country, Chicago is a well-suited site for these hearings.

It is for that reason that I have brought the committee here to investigate what has been happening in the steel industry, how it has affected not only just one State, our State, on importations, but what steps are being taken also in the Nation and what steps are appropriate to remedy the present situation.

First, we have to determine what the situation is with respect to the steel industry.

Very few people doubt the importance of maintaining a solidly competitive domestic steel industry. Steel is absolutely vital to both the industrial base and to our national security interests.

As Gen. Alton Slay, U.S. Air Force retired, recently pointed out: "Virtually every major hardware system built for our defense forces starts with steel as the primary ingredient. Applications of steel in defense range from a few pounds of very sophisticated alloys in spacecraft to 10 tons of plate for the hull and other components of a warship or tank."

Therefore, it is well that we take a look at the problems faced by the industry today.

Our steel industry, in the judgment of many experts, is in trouble today. By now we have filled books with statistics which demonstrate these rather frightening and staggering statistics of the steel industry.

These statistics demonstrate first that there is a shrinking capacity for domestic steel production in the United States.

In the last 2 years alone, there have been over 170 plant or facility closings, affecting virtually every industrial State, particularly Great Lakes States like Illinois. By some estimates, the industry lost nearly one-third of its net worth between 1981 and 1983, a precipitous drop.

Second is devastatingly high unemployment. The number of workers making steel has declined from an average of 453,000, during the period 1975 through 1979, to 243,000 in 1983, a 46-percent decline.

If we look at the situation that we have here in Illinois, this trend is parallel in Illinois, where 52,000 steelworkers, 45 percent of those previously employed in the industry, are currently out of work.

The third point is that capital investment is at levels consistently lower than what is required to reverse the declining trends.

The steel industry capital needs of our country have been projected to be in excess of $5 billion annually merely to maintain minimum viability.

Yet in the past 5 years, capital investments have averaged only $2.3 billion, about half what is really required, and dipped to $1.9 billion last year, only two-fifths, roughly, of requirements.

These discouraging statistics persist despite significant efforts by the industry to help itself. These efforts have included significant operating changes and production improvements in the fields of computerization, metallurgy, sensor development and electric furnace operations.

Productivity gains have been achieved through cutbacks in employee benefits and wages. These are accompanied by large white-collar reductions, as management staffs have been pared and functions consolidated. I know that several companies have also sold assets, such as coal properties, in order to improve their financial position.

As a founding member of the U.S. steel caucus, I have visited many headquarter plants and operations here in Illinois particularly.

Just a few months ago, I presented a productivity award selected among all industries and all companies by the Illinois State Chamber of Commerce, and I presented the first productivity award in the State of Illinois to a steel company for the outstanding job they had done to modernize and improve their facilities, increase productivity, and become more competitive. So the industry has not gone without making major efforts.

Meanwhile, many in the industry and in Congress feel the Federal Government has been less than helpful, given too little attention and been too insensitive to the problems of the steel industry.

Instead of encouraging progress and modernization of steelmaking capacity, the Government has either had no policy at all or taken decisions which stymied progress.

This was certainly the case when the Justice Department initially denied LTV Corp. and Republic Steel the right to merge. The lack of consensus within the administration on steel was evident on that occasion, when many members of the administration opposed the decision.

The steel industry is too important to the industrial base and national security of this country to be neglected or put at a disadvantage by inconsistent policy decisions.

I really found it quite necessary to denounce—and I've never done it before in 18 years—this decision by the Justice Department. As I read the conclusion that they came to, they were looking at the steel industry as a U.S. industry.

They were totally overlooking the fact that the steel industry is a worldwide industry; that there are 87 countries manufacturing steel, most of them in excess of their own domestic requirements, looking for exports, and about half of those plants are owned and operated by the government, whose function is not to show a profit in making steel; it's just to hire people. Then when the steel industry bottom falls out, they keep hiring the people and keep turning steel out and dumping that steel in the U.S. market.

So I was very pleased the Justice Department listened to some of us, reversed their decision and with certain modifications permitted the consolidation of two operations, Jones & Laughlin and Republic, so that they would have a financial base that would enable them to modernize, increase productivity, improve efficiency, and not be prohibited by law from being able to make the American steel industry more competitive in price than the world steel industry.

The next problem is, of course, the global nature, as I've implied, of the steel problem. Problems being faced by the steel industry also have sources overseas. Steel is one of the most contentious issues we must face with our trading partners, both in the common market, OECD [Organization for Economic Cooperation and Development] and the developing world.

Shortsighted overbuilding and a sharp dropoff in the demand for steel has resulted in global overcapacity. By now it has been well demonstrated, through various antidumping and countervailing duty cases, that several countries are routinely engaging in unfair trade practices in order to sell steel in the U.S. market, the most open market in the world.

The incentive to dump in the U.S. market, moreover, has increased as developing countries have had to cut back on major construction projects, thereby reducing the demand for steel in their own countries, and boost foreign exchange earnings in order to meet burdensome debt payments.

The most visible effect of this situation is a severely depressed price for steel products, which has hampered the industry's efforts to modernize production facilities.

To the extent that these problems stem from worldwide conditions, we must seek multilateral solutions to them. We must develop an action plan to remedy the problems which will not alienate our major trading partners or cause injury to U.S. exporting interests through retaliation.

What we have to be awfully careful of is that retaliation, if it is encouraged by actions that we take, could cause us in the end to have a net loss of jobs in the United States, certainly in agriculture.

In Illinois, where one out of two farmers are engaged in exporting, any retaliatory action by Japan, the European countries or Third World countries against the United States may cause severe unemployment problems in those very industries that depend upon exports.

Not only is one out of two farmers in Illinois—and half of the 83 percent of the State which is under cultivation—dependent upon exports, but you take cities like Springfield, Decatur, Peoria, cities of that kind, and one out of four manufacturing jobs are dependent upon exports. Statewide, about one out of seven or eight jobs in manufacturing are all there because of export markets. We can't put ourselves in a position to cut off that kind of employment created by exports.

In addressing the problem, as recently as June 12, the International Trade Commission [ITC], in response to a petition by the U.S. Steel Workers of America and Bethlehem Steel Corp., found that the steel industry had been seriously injured by imports in five out of nine product categories, roughly 70 percent of steel imports.

In my view, this was a critical first step in determining how to address the problems facing the steel industry in a manner consistent with our international trade obligations.

The ITC is presently deliberating over what types of remedies to recommend that the President grant in this case. That is why ITC representatives were stopped from being here at this particular hearing, although they have offered their full cooperation just as soon as they render a decision.

It is for this reason that I've called these hearings to order today, however. We could have had just another hearing on this subject in Washington, but today we have the opportunity to focus on the State of Illinois, with the largest facilities for manufacturing steel in the United States.

Here we can discuss right on the ground the specific repercussions of what would result from this process. Our goal is to ensure that the steps that are taken are favorable to Illinois, as well as to the Nation as a whole.

Every attempt, despite the huge number of people who offered to testify, has been made to make this hearing a balanced hearing, a fair hearing, so that representatives of various points of view can present the best case that they possibly can for their particular point of view.

At this time I'd like to introduce our first two witnesses, Charles Blum, Assistant U.S. Trade Representative for Industrial Trade Policy, and Alan Holmer, Deputy Assistant Secretary for Import Administration of the Department of Commerce, who will testify on behalf of the administration.

Our first witness will be Mr. Blum.

STATEMENT OF CHARLES H. BLUM, ASSISTANT U.S. TRADE REPRESENTATIVE FOR INDUSTRIAL TRADE POLICY

Mr. **Blum**. Thank you, Mr. Chairman, for this opportunity to present the views of the Office of the U.S. Trade Representative [USTR] on the problems facing the U.S. steel industry.

The same themes as are presented in my statement have been expressed a number of times by Ambassador Brock before the Congress in a joint letter with Secretary Baldrige to Members of the Congress and in many public and private statements.

I will summarize that statement and elaborate on a few themes that you have already touched on.

The **Chairman**. Thank you, Mr. Blum. I appreciate your summary of it.

I think all of us should be advised that we must finish this hearing by 1 o'clock, and the entire statement for every witness will be incorporated in the record, but your summary will enable us to have more time for questioning, which would be precluded if statements are too long.

Thank you.

Mr. **Blum**. I'd like to touch on three separate questions: First, why it is that the administration opposes S. 2380, the Fair Trade in Steel Act of 1984; second, some of the considerations that should go into a good steel trade policy; and, third, the significance of the section 201 action that is now pending before the International Trade Commission.

To be very clear about it, we oppose the Fair Trade in Steel Act not because steel is not vital to the American economy and to our base; it obviously is. We oppose it not because there is no steel trade problem; there obviously is. We oppose it not because there is not a great deal of unfair trade in the United States and around the world in steel; there obviously is.

And we do not oppose it because the recovery to date, to be modest, has put the industry back on a safe and secure footing once and for all. We don't believe that is the case, however helpful the pickup in demand has been.

The reasons for our opposition are these:

First, arbitrarily established quotas on all steel imports would be counterproductive to the industry's efforts, which have been going on for some time, to further improve its competitiveness. With quotas often comes a false sense of security. We've seen it in other countries. We don't want to see it here.

Second, the bill would, we believe, undermine the competitiveness of many industries highly dependent on steel as a raw material. You have a number of them represented later on today's schedule. I won't go into any detail. It's an obvious point, but one which is sometimes forgotten.

Third—and this is the point I'd like to dwell on a little longer—a protectionist action like the passage of the bill would be inconsistent with our international obligations not to impose import restrictions without a full investigation and a finding of injury.

As you pointed out, the International Trade Commission has made recently a finding that part—a substantial part—of the U.S. industry has been injured substantially by increased imports.

If we were to ignore those findings—the findings with respect to the part of the industry not injured by imports—and legislate comprehensive import relief, our trading partners almost certainly will retaliate, resulting in fewer jobs and slower growth in some of our most competitive industries.

The compensation for a retaliation bill with respect to our trading partners that would arise from passage of the legislation could be huge, as much as $6 billion. I think you get a very interesting perspective on this.

If you take a look at the section of the bill that enumerates the specific items on which quotas would be placed, pages 10 and 11 of the bill, there are 44 categories.

Five of those categories are already subject to either quotas or additional tariffs as a result of the President's decision last year to impose relief on specialty steel imports.

Although we have not seen the 700-page report the Trade Commission has prepared, with respect to 19 additional categories, it has been found that imports are not the substantial cause of injury.

So, therefore, the bill would expose us to compensation and retaliation claims on all 44 categories, when, in fact, the problem, judging from the ITC findings, would appear to be limited to no more than 20 of those categories. In dollar terms, it would appear that the difference between the two is roughtly on the order of $2 billion.

Third—and my colleague from the Commerce Department will touch on this—the arrangement that worked out in 1982 with the European Community [EC] already effectively regulates imports from the Community, which is on the order of one-quarter of the total imports.

When the President took specialty steel relief, we were unable to make an agreement with the European Community. One result of that has been that the Community, acting upon its legitimate rights under the GATT [General Agreement on Tariffs and Trade], has taken retaliatory measures that restrict our exports to the Community of certain chemicals, plastics and sports equipment.

In most other cases, at least, with the exception of Canada, we were able, through the process of negotiation, to eliminate or at least defer claims of compensation by dealing with the specific problems and concerns of the individual suppliers. However, in any restrictive action, you must face that issue.

So we fear the result of legislative quotas would be to reopen old disputes and to create a new vulnerability on the part of the U.S. exporters to claims of compensation or retaliation that have already been given up.

Now, turning to the question of what the elements of a good steel trade policy ought to be, there's a section in the testimony which gets into this in some greater length, and I think the testimony you will hear later will spell this out in much more detail than I have time for.

But we are mindful of the fact that within the steel sector, there is a variety of competitive situations and a variety of problems. Many large integrated steel producers have very significant, even enormous, problems of many types, including, as you pointed out, a very significant capital shortfall.

But there are other parts of the industry whose situations are somewhat different, and you have them represented here today: minimills.

Specialty steel producers I guess are not represented today, but they also have significantly different situations, and then the often overlooked part of the industry, the metal-working producers, those people who take the steel and put it in a form that can be marketed. They employ 20 times more people than the basic steel industry, and they account for 10 times more of the share of GNP [gross national product] than our integrated producers do.

Clearly, those producers would be hurt by increased prices for their raw materials arising from legislative quotas, and they would also be affected by increased import competition directly, as foreign producers shift from exporting the steel subject to controls to that which is free of controls.

So I would suggest that good steel policy will keep in mind the different competitive situations of the various sectors within the steel industry and will strive to accommodate them all as far as possible.

Good policy should also recognize that there are certain fundamental changes taking place in our economy that no legislation can reverse. It's a simple fact that today we need less steel than we did 10 years ago, and, in fact, we need different types and ratios of steel than we did 10 years ago.

The only way that we can see for the industry to deal with these changes is to continue the major restructuring process that has already been underway for some time. We do not need the blunderbuss of legislative quotas for this modernization to occur. It has been occurring. We expect it to continue to occur.

As you pointed out, our industry is forced to compete in a world which is dominated by producers who are not oriented to the market, owned by foreign governments, often subsidized, often protected in their home markets, and the result has been the development of a huge overcapacity in global terms.

That can't help but affect every consideration that we make in the steel sector. Therefore, good policy, it would seem to us, must take into account that basic reality as well.

Now, let me turn to the section 201 case.

The section 201 statute is the only GATT-consistent means for restricting fairly priced import competition. It is also the only statute that we have on the books whose central focus is the adjustment of an industry to changing competitive conditions.

It has been used by a number of industries to achieve just that purpose. It's being used today by the specialty steel industry.

We expect next week that the ITC will make a recommendation to the President on what the remedy should be that they would suggest for the injury that they have found to exist. A report will be delivered to the President on July 24, and thereafter, within the executive branch, we will have 60 days to prepare an executive branch recommendation to the President to decide whether relief is in the national economic interest and, if so, what remedy to apply.

I'd like to take just a minute to spell out how we evaluate the national economic interest. The statute required us, inter alia, to take into account the following factors:

The effectiveness of import relief in promoting adjustment and previous efforts by the domestic producers to adjust to import competition.

Second, the effect of import relief on consumers and on consumption in the domestic market as well as the social and economic costs, whether it is or is not provided.

Third, the effect of import relief on the international economic interests of the United States.

Fourth, the impact of possible compensation or retaliation on the United States as a result of any action we may take.

Fifth, the extent to which the United States is a focal point for exports resulting from foreign export or import restraints with third countries.

Thus, this is a complex and comprehensive determination, taken after months of data collection, analysis, and deliberation.

In addition to the section 201 case, the domestic producers have brought an unprecedented number of cases against unfairly traded steel. I will let my colleague from the Commerce Department summarize these cases and their results.

I would merely point out that our view has been—and will continue to be, I believe—that this is the first line of defense against unfair import competition. Without making full use of the antidumping and countervailing statutes, we cannot in good conscience respond, shall we say, too vigorously to complaints of unfairness, but we have the most elaborate legal system for dealing with these questions, and we certainly have always encouraged domestic producers who feel they have been injured by imports to investigate that as their first response.

In conclusion, the feeling of the USTR is that given the range of actions currently underway, we are surprised by the urgency that some attach to enacting the steel quota legislation. U.S. producers have taken the time and the expense to bring in a record number of cases under our established statutes. Yet even before these investigations have been given a chance to produce results, many in the industry are proclaiming that these processes have failed and are pleading for a legislative solution.

We hope the absurdity of this situation is as clear to the Members of the Congress and to the public as it is to the administration. Why should anyone bring cases under our existing statutes and why should the Government provide the enormous resources to investigate these claims if the petitioners have already concluded that the statutes are unworkable?

We all recognize the serious trade problems that exist in this important industrial sector. However, we are in the process of addressing these problems under several of our existing trade statutes. I do not believe the need exists to skip over these procedures until it can be proven that they don't work, and that time simply has not come.

[Mr. Blum's prepared statement follows:]

STATEMENT OF
CHARLES H. BLUM
ASSISTANT U.S. TRADE REPRESENTATIVE FOR INDUSTRY AND ENERGY TRADE POLICY
BEFORE THE
SENATE FOREIGN RELATIONS COMMITTEE
UNITED STATES SENATE
JULY 6, 1984

I WANT TO THANK YOU, MR. CHAIRMAN, AND THE MEMBERS OF THIS COMMITTEE FOR THE OPPORTUNITY TO PRESENT MY VIEWS ON THE PROBLEMS FACING THE U.S. STEEL INDUSTRY.

OVER THE PAST SEVERAL MONTHS, THE U.S. STEEL INDUSTRY HAS BEEN UNDERGOING A SLOW RECOVERY OUT OF ITS WORST RECESSION SINCE THE 1930'S. PRODUCTION FOR 1983 WAS JUST 84 MILLION TONS. ALTHOUGH THIS IS A 12 PERCENT IMPROVEMENT OVER 1982 PRODUCTION, IT REMAINS OVER 30 PERCENT BELOW PRODUCTION IN 1981 AND ALMOST 40 PERCENT BELOW PRODUCTION IN 1979, THE LAST REASONABLY GOOD YEAR IN THE UNITED STATES. IN 1983 PRODUCTION WAS EQUIVALENT TO JUST 55 PERCENT OF U.S. CAPACITY.

DEMAND FOR STEEL, AND DOMESTIC PRODUCTION, HAS BEEN GROWING, BRINGING AN INCREASING AMOUNT OF PRODUCTIVE CAPACITY BACK INTO OPERATION. THIS IMPROVEMENT, IN TURN, IS BRINGING STEEL WORKERS BACK TO WORK. DESPITE SOME LEVELING OFF IN RECENT WEEKS, PRODUCTION THROUGH MID-JUNE WAS NEARLY 30% HIGHER THAN IT WAS FOR THE SAME PERIOD 12 MONTHS AGO.

DESPITE THESE SIGNS OF RECOVERY, MANY CONTINUE TO ARGUE THAT THE ENACTMENT OF THE SO-CALLED FAIR TRADE IN STEEL ACT OF 1984 IS THE ONLY WAY TO SAVE THIS INDUSTRY. THIS BILL WOULD IMPOSE IMPORT QUOTAS OF APPROXIMATELY 15 PERCENT ON STEEL PRODUCTS FOR A FIVE TO EIGHT YEAR PERIOD.

ARBITARILY ESTABLISHED QUOTAS ON ALL STEEL IMPORTS WOULD, IN MY VIEW, BE COUNTERPRODUCTIVE TO THE INDUSTRY'S EFFORTS TO FURTHER IMPROVE ITS COMPETITIVENESS, BY PROVIDING A FALSE SENSE OF SECURITY NOT UNLIKE THE SITUATION IN SOME OTHER COUNTRIES WHERE PROTECTION FROM IMPORTS HAS DELAYED MODERNIZATION.

THIS BILL WOULD ALSO UNDERMINE THE COMPETITIVENESS OF A GREAT MANY INDUSTRIES HIGHLY DEPENDENT ON STEEL AS A RAW MATERIAL. MANY STEEL DEPENDENT INDUSTRIES ALREADY FACE STRONG IMPORT PRESSURES. IMPOSING QUOTAS ON ALL STEEL IMPORTS, AS COMPREHENSIVELY AS PROPOSED BY THIS BILL, WOULD RAISE COSTS TO THESE PRODUCERS IN A WAY THEY CANNOT AFFORD TO ABSORB, AND THUS MERELY SHIFT THE BURDEN FROM STEEL PRODUCERS TO THEIR CONSUMERS.

SOME MIGHT RESPOND TO THIS BY SUGGESTING THAT CONGRESS EXTEND THE QUOTAS TO APPLY TO THESE DOWNSTREAM INDUSTRIES, AS WELL. BUT THEN WHERE WOULD THE LINE BY DRAWN? I CAN SEE A STEADY DOWNWARD SPIRAL AS PROTECTION BECOMES NECESSARY FOR ONE STEEL-RELATED INDUSTRY AFTER ANOTHER, RESULTING IN A CUMULATIVE COMPETITIVE BURDEN ON OUR ECONOMY AND A CUMULATIVE COST ON THE CONSUMER.

FURTHERMORE, PROTECTIONIST ACTION LIKE THIS IS INCONSISTENT WITH OUR INTERNATIONAL OBLIGATIONS NOT TO IMPOSE IMPORT RESTRICTIONS WITHOUT AN IMPARTIAL INVESTIGATION AND A FINDING OF INJURY. THE GATT PROVIDES FOR IMPORT RELIEF ONLY AFTER A FINDING OF INJURY. AS YOU KNOW, THE U.S. INTERNATIONAL TRADE COMMISSION HAS RECENTLY FOUND THAT ONLY PART OF THIS INDUSTRY HAS BEEN SERIOUSLY INJURED SUBSTANTIALLY BY INCREASED IMPORTS. IF THE UNITED STATES IGNORES THESE FINDINGS AND THE GATT AND LEGISLATES COMPREHENSIVE IMPORT RELIEF, OUR TRADING PARTNERS WILL ALMOST CERTAINLY RETALIATE AGAINST OUR EXPORTS, RESULTING IN FEWER JOBS AND SLOWER GROWTH IN SOME OF OUR MOST COMPETITIVE INDUSTRIES.

The EC has already restricted imports of certain U.S. chemicals, plastics, and sports equipment in retaliation for the quotas and tariff increases which the United States imposed on imports of specialty steel, taken in a trade action consistent with our domestic and international laws. Our action on specialty steel allowed the President to negotiate agreements with the supplying countries. As part of these negotiations, we were able to settle the claims of most of our suppliers without having to suffer retaliation. However, this was not possible with our largest foreign supplier, the EC, which retaliated.

The reaction of the European Community and other suppliers to legislated, comprehensive, unilaterally imposed quotas on all steel imports, unrelated to findings of injury, is likely to be much stronger. U.S. exports of products such as textiles, chemicals, electronics, and machinery will be subject to import restrictions in other countries with resulting loss of markets.

WHILE 1980-82 AVERAGE U.S. IMPORTS OF SPECIALTY STEEL FROM ALL COUNTRIES AMOUNTED TO ABOUT $300 MILLION A YEAR, ONLY $135 MILLION IN U.S. EXPORTS ARE CURRENTLY SUBJECT TO RETALIATION. HOWEVER, U.S. IMPORTS OF THE STEEL PRODUCTS THAT WOULD BE COVERED BY S. 2380 ARE VALUED AT MORE THAN $6 BILLION! PASSAGE OF THE BILL, THEREFORE, COULD RESULT IN RETALIATION AGAINST UP TO $6 BILLION OF U.S. EXPORTS. MR. CHAIRMAN, I HOPE YOU'LL AGREE THAT THIS IS A STAGGERING AMOUNT AND THAT THE HARDSHIP AND DISLOCATION THAT COULD RESULT FROM SUCH RETALIATION COULD BE ENORMOUS.

I BELIEVE THAT THE STEEL INDUSTRY'S PROBLEMS AND THE SOLUTION ARE FAR MORE COMPLEX THAN THE AUTHORS OF THIS BILL SUGGEST. ALL STEEL FIRMS DO NOT SUFFER THE SAME PROBLEMS AND WORKERS AT DIFFERENT FIRMS HAVE NOT BEEN AFFECTED IN THE SAME WAY. SOME FIRMS ARE DOING CONSIDERABLY BETTER THAN OTHERS.

We tend to be the most aware of the problems of the large integrated steel producers, and to perceive of their problems as those of the entire industry. Clearly, the integrated producers dominate the industry and are the force behind S. 2380, the so-called Fair Trade in Steel Act. They account for the bulk of steel production, producing it through the traditional process of taking raw materials, melting them into iron and using these materials to make steel. The very nature of this process requires huge production batches and the production of a wide range of steel products. Some of the facilities these integrated producers operate what in many cases have become technologically out-of-date, relatively uneconomic and poorly located for changing markets for their output. Furthermore, for most of the 1970's wages and salaries rose far faster than gains in productivity. That has been a tough combination to overcome.

Even in those cases in which management has made major advances in enhancing the productivity of existing facilities, there remains the pressing need to raise huge amounts of capital, estimated as high as $2 billion annually to modernize and to become fully competitive. The main problem for the integrated producers is their inability to raise adequate capital to improve their competitiveness. These producers have documented

THE GAP THAT EXISTS BETWEEN THEIR CAPITAL REQUIREMENTS AND THEIR INVESTMENTS. THIS GAP RANGES BETWEEN TWO AND THREE BILLION DOLLARS PER YEAR. AS A RESULT, THERE HAS BEEN A SLOWNESS TO INTRODUCE NEW TECHNOLOGIES AND A FURTHER LOSS IN COMPETITIVENESS.

OTHER SEGMENTS OF THE STEEL INDUSTRY HOWEVER, DO NOT VIEW IMPORTS WITH THE SAME ALARM AS DO THE INTEGRATED PRODUCERS. CONGRESS MUST TAKE THOSE SEGMENTS INTO ACCOUNT. THE SO-CALLED MINI-MILLS, FOR EXAMPLE, ARE THE FASTEST GROWING SEGMENT OF THE INDUSTRY, PRODUCING A SELECT RANGE OF PRODUCTS AND SERVING A RELATIVELY LIMITED MARKET. THESE MILLS HAVE LOWER COSTS, HIGHER PRODUCTIVITY AND HAVE BEEN CONSIDERABLY MORE PROFITABLE THAN THE MAJOR PRODUCERS. THESE FACTORS ALLOW THESE FIRMS TO SELL STEEL AT VERY COMPETITIVE PRICES. SEVERAL MINI-MILLS CONTINUED TO BE PROFITABLE THROUGH THE PAST RECESSION AND MANY HAVE PLANS FOR EXPANDING, NOT CONTRACTING, CAPACITY, BASED ON A RECORD OF SUCCESS--BOTH TECHNOLOGICAL AND FINANCIAL--IN THE MARKET.

A THIRD SEGMENT OF THE STEEL INDUSTRY IS THE SPECIALTY STEEL PRODUCERS. THESE PRODUCERS DIFFER FROM THE MINI-MILLS IN THAT THEY MAKE HIGHER GRADE STEEL PRODUCTS FOR MORE

SOPHISTICATED APPLICATIONS, AS OPPOSED TO THE COMMODITY GRADE PRODUCTS GENERALLY MADE BY BOTH THE MINI-MILLS AND THE INTEGRATED PRODUCERS. THE SPECIALTY STEEL PRODUCERS HAVE SUFFERED SOME OF THE SAME PROBLEMS AS THE INTEGRATED PRODUCERS, ALTHOUGH CAPITAL AVAILABILITY HAS NOT BEEN AS MUCH OF AN ISSUE. THIS SEGMENT OF THE INDUSTRY HAS DONE FAR BETTER AT ADOPTING -- AND EVEN DEVELOPING -- THE NEWEST TECHNOLOGIES AND IN STAYING COST COMPETITIVE WITH FOREIGN PRODUCERS.

NONETHELESS, THERE HAVE BEEN SURGES OF SPECIALTY STEEL IMPORTS OVER THE PAST FEW YEARS AND THERE HAS BEEN AN ARRAY OF UNFAIR TRADE PRACTICES FOUND IN THIS SECTOR. AS IN CARBON STEEL, THERE IS CONSIDERABLE EXCESS GLOBAL CAPACITY IN THIS SECTOR WITH THE RESULT THAT PRICES HAVE BEEN ARTICIALLY SUPPRESSED. LOW PRICES HAVE LIMITED NEEDED INVESTMENT IN CERTAIN PARTS OF THIS SECTOR. AS A RESULT, U.S. SPECIALTY STEEL PRODUCERS ARE CURRENTLY RECEIVING IMPORT RELIEF PURSUANT TO A SECTION 201 FINDING IN JULY 1983, TO ENABLE THEM TO MAKE ADDITIONAL IMPROVEMENTS IN THEIR COMPETITIVENESS.

THERE IS ALSO A FOURTH SEGMENT OF THIS INDUSTRY, THE METAL-WORKING PRODUCERS. THE CONCERNS AND PROBLEMS OF THESE

PRODUCERS RARELY GET THE ATTENTION THEY DESERVE. THIS SECTOR EMPLOYS 20 TIMES MORE PEOPLE AND ACCOUNTS FOR ALMOST 10 TIMES THE SHARE OF GNP THAN THE INTEGRATED PRODUCERS AND SO THEIR INTERESTS MUST BE CONSIDERED. METAL-WORKING FIRMS ARE TYPICALLY SMALL, WITHOUT ENORMOUS POLITICAL MUSCLE, YET THEY ARE ALSO SENSITIVE TO IMPORTS. THESE PRODUCERS WOULD CLEARLY BE HURT BY PASSAGE OF THIS BILL, WHICH WOULD CAUSE INCREASED PRICES FOR THEIR BASIC RAW MATERIAL AND INCREASED IMPORT COMPETITION, AS FOREIGN PRODUCERS SHIFT FROM EXPORTING STEEL TO EXPORTING PRODUCTS MADE OF STEEL.

THERE ARE CERTAIN FUNDAMENTAL STRUCTURAL CHANGES TAKING PLACE IN OUR ECONOMY THAT NO LEGISLATION CAN REVERSE. A SIMPLE FACT IS THAT WE NEED CONSIDERABLY LESS STEEL TODAY THAN WE DID 10 YEARS AGO. AUTOMOBILE MANUFACTURING REQUIRES LESS STEEL. PLASTICS, ALUMINUM AND OTHER MATERIALS ARE NOW OFTEN CHEAPER, LIGHTER AND MORE ENERGY EFFICIENT SUBSTITUTES. THE STEEL INDUSTRY ITSELF, HAS DEVELOPED LIGHTER, STRONGER, MORE SOPHISTICATED STEEL TO SUBSTITUTE FOR THE HEAVIER, BULKIER STEEL MADE IN THE PAST. THE RESPONSE TO THIS DECREASE IN DEMAND IS THAT LESS STEEL IS BEING PRODUCED. THE ONLY WAY FOR THE U.S. INDUSTRY TO ADJUST TO THESE CHANGES IS TO CONTINUE THE MAJOR RESTRUCTURING PROCESS ALREADY UNDERWAY.

We do not need the blunderbuss of legislated quotas for this modernization to occur. Restructuring is occuring now and has been underway for several years. This modernization effort by the integrated producers has already resulted in the closure of millions of tons of steel-making capacity. Some of our largest integrated mills shut down or curtailed significant operations in 1983. Major closings were announced at U.S. Steel, Bethlehem steel, Kaiser, and Armco. The result was the elimination of 15.9 million tons of steel-making capacity in 1983, a 9.6 percent drop from 1982. U.S. Steel alone announced the closing of roughly 6.6 million tons of capacity, reducing their total capacity by 20 percent. These closings included the shutdown of five major facilities and the elimination of over 11,000 jobs in the steel-making sector.

Although the integrated producers do not like to boast, they have made fairly remarkable progress in recent years to improve their competitiveness. In the past two years these producers have reduced total costs by 18% and increased productivity by 25%. Recent capacity reductions have lowered break-even operating rates from 80% to 69% over this period. Adjustment efforts in this industry are not complete. More certainly needs to be done. But adjustment is occurring without this bill.

THE INDUSTRY'S MODERNIZATION EFFORTS HAVE BEEN COMPLICATED BY THE RECESSION THAT HAS STRUCK THE STEEL INDUSTRY. AS A RESULT OF THE RECESSION, WHICH WAS CAUSED LARGELY BY THE MISTAKEN POLICIES OF PREVIOUS ADMINISTRATIONS, ROUGHLY 40 MILLION FEWER TONS OF STEEL WERE CONSUMED IN 1982 AND 1983 THAN IN THE PREVIOUS YEARS. THIS DECLINE HAS HAD A DEVASTATING EFFECT ON THE INDUSTRY. IN ADDITION TO THE REDUCED PRODUCTION AND JOB LOSSES I'VE MENTIONED, THE INDUSTRY LOST MORE THAN $6 BILLION DURING THIS TWO YEAR PERIOD.

THE INTEGRATED STEEL PRODUCERS CONTINUE TO FACE SIGNIFICANT INVESTMENT AND RESTRUCTURING REQUIREMENTS. THE PLANT CLOSINGS, THE MERGER OF LTV AND REPUBLIC STEEL, AND THE KIND OF COOPERATIVE COLLECTIVE BARGAINING AGREEMENT NEGOTIATED BETWEEN THE INDUSTRY AND THE UNION DEMONSTRATE A RECOGNITION OF THE NEED TO MODERNIZE AND TO CUT COSTS. THE NATIONAL STEEL-NIPPON KOKAN MERGER MAY BE ANOTHER STEP IN THIS DIRECTION. I WOULD EXPECT ADDITIONAL MODERNIZATION EFFORTS TO OCCUR TO IMPROVE THE INDUSTRY'S COMPETITIVENESS IN THE FUTURE. PAINFUL, YET ESSENTIAL COST REDUCTIONS MUST CONTINUE IF THIS INDUSTRY IS GOING TO SURVIVE AND PROSPER.

Some of our foreign steel competitors operate highly efficient, unsubsidized world-class facilities that are being continually modernized. Import competition for these producers, like our own mini-mills, provides an incentive to U.S. steel producers to maximize efficiency and to market their product at the lowest cost possible. Incentives of this nature are in the interest of all of us and should not be discouraged.

However, other foreign steel producers operate inefficient plants which continue to produce, and to export, significant quantities of steel products. A large quantity of uneconomic, excess steel-making capacity has sprung up in the world today, greatly distorting the international steel market. Foreign producers have tried to modernize this inefficient capacity, often with little success, largely because of social and political constraints. Complicating this is the desire of many developing countries to build show-case steel mills whose production cannot be justified by domestic or international market conditions and who have only a marginal chance of profitability. This development has been exacerbated by the haste with which many developed countries have rushed to provide subsidized financing for the export of steel-making equipment to build mills in the developing countries.

CERTAIN COUNTRIES HAVE ATTEMPTED TO INSULATE THEIR STEEL INDUSTRY BY RESORTING TO SUBSIDIES OR IMPORT RESTRICTIONS. SUBSIDIES HAVE BEEN USED TO SUSTAIN OTHERWISE FAILING STEEL COMPANIES, TO PROMOTE EXPORTS INTO WEAK WORLD MARKETS OR, IN THE CASE OF DEVELOPING COUNTRIES, TO EXPAND THEIR INDUSTRIAL BASE. THE RESULT OF THESE PRACTICES COULD HAVE BEEN PREDICTED. FOR EXAMPLE, IN THE NAME OF RESTRUCTURING, THE EUROPEAN COMMUNITY HAS USED EXTENSIVE SUBSIDIZATION AND IMPORT PROTECTION THAT INCLUDES BOTH A BASIC PRICE SYSTEM SIMILAR TO OUR OLD TRIGGER PRICE MECHANISM AND BILATERAL QUOTA ARRANGEMENTS WITH BOTH QUANTITATIVE AND PRICE ELEMENTS. SOME WOULD SAY THAT THE QUOTA BILL IS NO WORSE THAN THESE SCHEMES. MY FEAR IS THAT THE QUOTA BILL WOULD BE NO BETTER. NEEDED RESTRUCTURING IN EUROPE HAS PROGRESSED MORE SLOWLY THAN NECESSARY, IN PART DUE TO THE FALSE SECURITY PROVIDED BY SUBSIDIES AND PROTECTION FROM IMPORTS.

AS YOU KNOW, CERTAIN STEEL COMPANIES AND THE UNITED STEELWORKERS HAVE PETITIONED FOR COMPREHENSIVE IMPORT RELIEF UNDER SECTION 201 OF THE TRADE ACT OF 1974. THIS STATUTE, THE ONLY GATT CONSISTENT MEANS FOR RESTRICTING FAIRLY-PRICED IMPORT COMPETITION, IS TOTALLY

CONSISTENT WITH OUR DOMESTIC AND INTERNATIONAL OBLIGATIONS AND HAS BEEN USED BY A VARIETY OF INDUSTRIES TO ADJUST TO INCREASED IMPORT COMPETITION. AS I MENTIONED EARLIER THE U.S. INTERNATIONAL TRADE COMMISSION HAS DETERMINED IN THIS CASE THAT ONLY CERTAIN SEGMENTS OF THE STEEL INDUSTRY HAVE BEEN INJURED BY IMPORTS. THE ITC IS NOW IN THE PROCESS OF DEVELOPING A RECOMMENDED REMEDY TO THIS INJURY. THEY WILL REPORT THEIR FINDINGS TO THE PRESIDENT BY JULY 24. THE PRESIDENT WILL THEN HAVE 60 DAYS IN WHICH TO DECIDE IF IMPORT RELIEF IS IN THE NATIONAL ECONOMIC INTEREST AND, IF SO, WHAT REMEDY TO APPLY.

IN DETERMINING THE NATIONAL ECONOMIC INTEREST, THE PRESIDENT IS REQUIRED BY STATUTE TO CONSIDER, INTER ALIA, SEVERAL POINTS. THESE INCLUDE:

--1) THE EFFECTIVENESS OF IMPORT RELIEF IN PROMOTING ADJUSTMENT AND PREVIOUS EFFORTS BY DOMESTIC PRODUCERS TO ADJUST TO IMPORT COMPETITION;

--2) THE EFFECT OF IMPORT RELIEF ON CONSUMERS AND ON CONSUMPTION IN THE DOMESTIC MARKET, AS WELL AS THE SOCIAL AND ECONOMIC COSTS IF RELIEF, IS, OR IS NOT PROVIDED;

--3) THE EFFECT OF IMPORT RELIEF ON THE INTERNATIONAL ECONOMIC INTERESTS OF THE UNITED STATES;

--4) THE IMPACT OF POSSIBLE COMPENSATION OR RETALIATION ON THE U.S. AS A RESULT OF ANY ACTION WE MAY TAKE; AND

-5) THE EXTENT TO WHICH THE U.S. IS A FOCAL POINT FOR EXPORTS RESULTING FROM FOREIGN EXPORT OR IMPORT RESTRAINTS WITH THIRD COUNTRIES.

THUS THIS IS A COMPLEX AND COMPREHEHSIVE DETERMINATION, TAKEN AFTER MONTHS OF DATA COLLECTION, ANALYSIS AND DELIBERATION.

AS YOU ARD PROBABLY ALSO AWARE, U.S. STEEL PRODUCERS HAVE BROUGHT AN UNPRECEDENTED NUMBER OF CASES AGAINST UNFAIRLY TRADED STEEL. THE COMMERCE DEPARTMENT HAS INVESTIGATED MORE THAN 140 ANTIDUMPING AND COUNTERVAILING DUTY CASES SINCE JANUARY 1981. THE FIRST BATCH OF THESE CASES RESULTED IN THE U.S.-EC CARBON STEEL ARRANGEMENT, WHICH IS NOW LIMITING MOST STEEL IMPORTS FROM THE EUROPEAN COMMUNITY. COMMERCE IS NOW INVESTIGATING 30 COMPLAINTS INVOLVING STEEL IMPORTS FROM BRAZIL, KOREA, ARGENTINA, SPAIN, AUSTRALIA, TAIWAN, FINLAND, CZECHOSLOVAKIA AND POLAND. I WAS TOLD RECENTLY THAT NEARLY TWO-THIRDS OF THE STEEL IMPORTS COMING FROM COUNTRIES OTHER THAN THE EC, JAPAN AND CANADA ARE CURRENTLY EITHER UNDER INVESTIGATION OR SUBJECT TO SOME RESTRAINT ACTION. ONCE THESE CASES ARE RESOLVED, WE SHOULD HAVE A FAIRLY COMPREHENSIVE RESPONSE TO UNFAIRLY TRADED STEEL IMPORTS.

I WOULD STRONGLY URGE THAT WE NOT PRE-EMPT EITHER THIS PROCESS, OR THE 201 PROCESS BY MOVING DIRECTLY TO A LEGISLATED SOLUTION BEFORE THE FINAL DETERMINATIONS ARE IN.

GIVEN THE RANGE OF ACTIONS CURRENTLY UNDERWAY, I AM SURPRISED AT THE URGENCY SOME ATTACH TO ENACTING STEEL QUOTA

LEGISLATION. U.S. PRODUCERS HAVE TAKEN THE TIME AND EXPENSE OF BRINGING A RECORD NUMBER OF CASES UNDER OUR ESTABLISHED STATUTES. YET, EVEN BEFORE THE INVESTIGATIONS HAVE BEEN GIVEN A CHANCE TO PRODUCE RESULTS, MANY IN THE INDUSTRY ARE PROCLAIMING THAT THESE PROCESSES HAVE FAILED AND ARE PLEADING FOR A LEGISLATED SOLUTION.

WE HOPE THE ABSURDITY OF THIS SITUATION IS AS CLEAR TO MEMBERS OF CONGRESS AS IT IS TO THE ADMINISTRATION. WHY SHOULD ANYONE BRING CASES UNDER OUR EXISTING STATUTES, AND WHY SHOULD THE GOVERNMENT PROVIDE THE ENORMOUS RESOURCES TO INVESTIGATE THESE CLAIMS, IF THE PETITIONERS HAVE ALREADY CONCLUDED THAT THE STATUTES ARE UNWORKABLE?

I RECOGNIZE THE SERIOUS TRADE PROBLEMS THAT EXIST IN THIS IMPORTANT INDUSTRIAL SECTOR. HOWEVER, WE ARE IN THE PROCESS OF ADDRESSING THESE PROBLEMS UNDER SEVERAL OF OUR EXISTING TRADE STATUTES. I DO NOT BELIEVE THE NEED EXISTS TO SKIP OVER THESE PROCEDURES UNTIL IT CAN BE PROVEN THAT THESE PROCEDURES DON'T WORK. THAT TIME HAS SIMPLY NOT COME.

IF CONGRESS PASSES THIS LEGISLATION ONE WONDERS WHY ANY INDUSTRY WITH ANY POLITICAL STRENGTH WOULD EVER AGAIN FOLLOW THE ESTABLISHED PROCEDURES. THE ANSWER WOULD BE CLEAR: IGNORE ESTABLISHED PROCEDURES, AND UNDERTAKE A MASSIVE LOBBYING EFFORT TO GET CONGRESS TO LEGISLATE AWAY YOUR PROBLEM FOR YOU.

IN CLOSING, I WANT TO REITERATE THAT THE ADMINISTRATION STRONGLY OPPOSES H.R. 5081 AND ENACTMENT OF THE LEGISLATION WOULD NOT BE IN ACCORD WITH THE PROGRAM OF THE PRESIDENT.

The CHAIRMAN. Thank you very much.

Our next witness is Mr. Alan Holmer, Deputy Assistant Secretary for Import Administration, Department of Commerce.

You just happened to have some charts with you.

STATEMENT OF ALAN F. HOLMER, DEPUTY ASSISTANT SECRETARY FOR IMPORT ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. HOLMER. Mr. Chairman, what I would like to do in my portion of the testimony is to focus on where steel imports have been coming from and which imports seem to be of most concern to the U.S. steel industry.

First, 24 percent of the steel imports that came into the United States in 1983 came from the European Community.

You'll recall that in 1982, as part of the withdrawal of 44 antidumping and countervailing duty complaints, the United States entered into an arrangement with the European Community to restrict their imports of steel into the United States.

That arrangement has been working extremely effectively, and generally we received plaudits from the industry in this area. Import penetration is down from about 7½ percent in 1982 to under 5 percent in 1983. So we do not hear many complaints about roughly one-quarter of the imports.

The same can be said about the imports from Japan. Japan's imports generally follow our market quite closely. Import penetration went down from 6.95 percent in 1982 to 5.8 percent in 1983.

Their imports have come up some in 1984, as our market has gone up as well, but, for the most part, you do not hear complaints in the U.S. steel industry about imports from Japan, and in particular you don't hear complaints about unfairly traded imports from Japan.

The same can also be said about Canada, where the only unfair trade complaints that we have had are two antidumping orders dating back to 1964, which are still in effect.

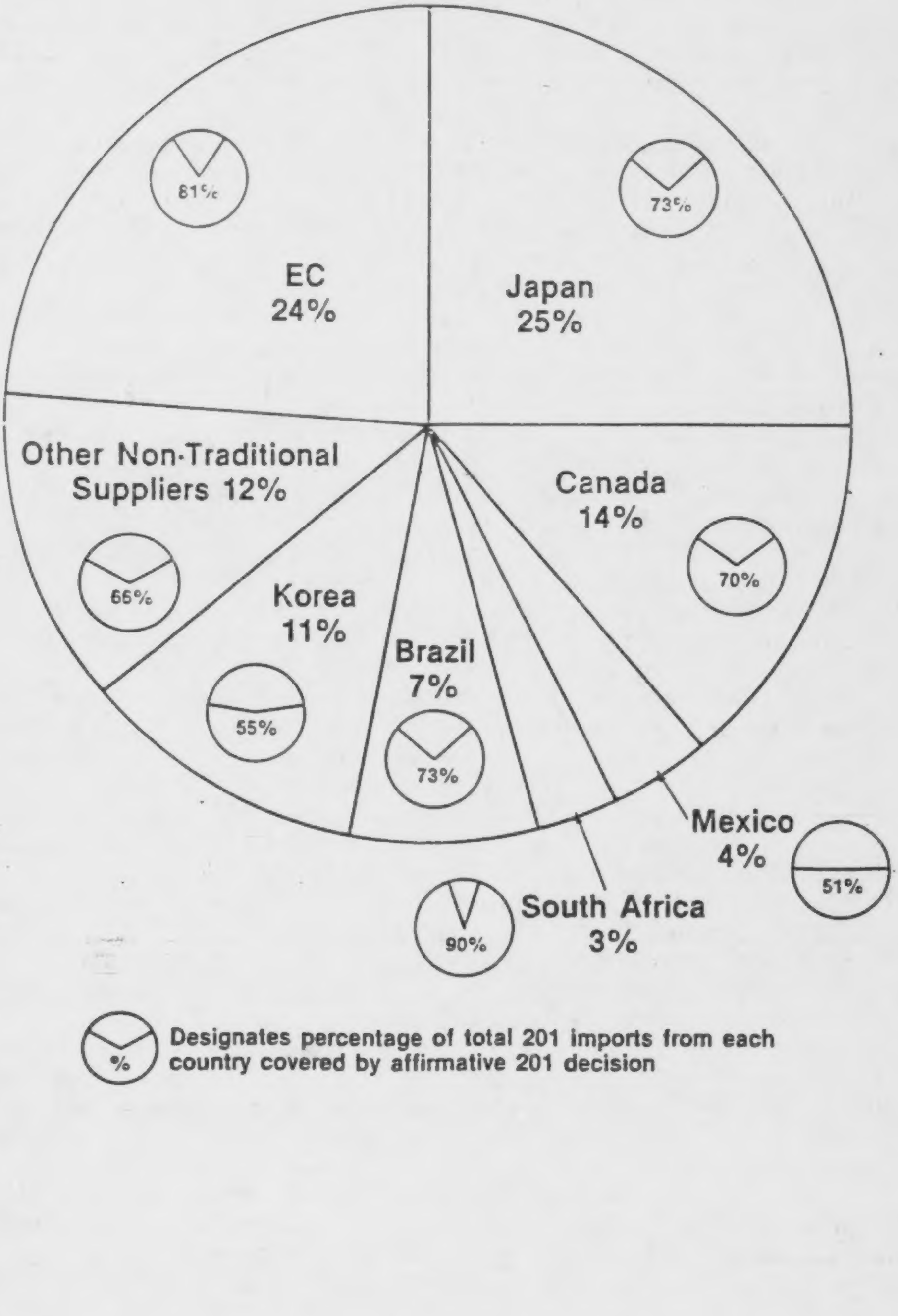
So, with Canada, Japan, and the EC, about 63 percent of the total steel imports have not been a source of substantial complaints from the industry.

You do hear significant complaints with respect to the remaining 37 percent. I'd like to describe what we are doing to address the problems of unfair trade in steel from the remaining countries.

First, Mexico. Mexico has been a very significant source to the industry. Their imports went up from about 115,000 tons in 1982 to 650,000 tons in 1983.

United States Steel filed antidumping and countervailing duty complaints, covering over 90 percent of all of Mexico's steel exports to the United States, and Mexico has now taken a voluntary restraint action, limiting their exports by 32 percent in the first year of this restraint, and it will be followed by subsequent reductions of 32 percent in year 2 and year 3 of that restraint program, bringing their exports down from the 1983 level of 650,000 tons to about 200,000 tons.

Imports of 201 Products By Country of Origin 1983



In response, United States Steel said that they wanted to withdraw their complaints, and we terminated our investigations. I sense, as far as imports from Mexico are concerned, that those are not a problem for the industry.

You had almost exactly the same scenario with respect to South Africa, except South Africa's exports have not been increasing significantly.

Complaints that were filed by United States Steel. South Africa undertook a voluntary restraint program. United States Steel said that they thought that they wanted to withdraw their petitions in exchange for that voluntary restraint action, and they have done so.

So with respect to Mexico and South Africa, 7 percent of the total, from what we were able to tell, the U.S. industry is satisfied with the actions which have been taken.

Brazil is a very substantial source of concern to the industry, with import increases from about 600,000 tons in 1982 up to 1.2 million tons in 1983, representing 7 percent of total imports.

In the case of Brazil, we have been very active. We've had filings covering cold-rolled sheet and hot-rolled sheet and plates just this year that represent about two-thirds of Brazil's exports to the United States.

With respect to those products, in April we came out with a final subsidy finding of 37 percent, which means, Mr. Chairman, that for every ton of cold-rolled or hot-rolled sheet imported from Brazil, whatever prices they're selling it for in the United States, there is a countervailing duty of 37 percent of that price that is added when the steel comes in.

In the case of plate, we have had dumping duties of 87 percent that have been imposed. With respect to wire rod, significant duties have also been imposed.

I have been watching the statistics to see when there will be some kind of impact with respect to our trade as a result of those actions. We saw it in the statistics that came out just last week.

Steel exports from Brazil have been running from January through April at approximately 150,000 tons per month. What we saw in this last month was a 50-percent cutback, so in the month of May, the imports of steel from Brazil were 76,000 tons.

Whether that will continue in the succeeding months I can't tell for sure, although I would anticipate that the high margins that we have found, in conjunction with the voluntary restraint action that the Brazilians have taken, are likely to result in a moderation of Brazilian exports to the United States.

Korea is another very significant source of concern in the industry. There have been a number of unfair trade cases that have been filed, both countervailing duty and dumping, over the course of the last several years. The margins that have been found have been relatively low.

Within the last month, however, United States Steel has filed new countervailing duty allegations where the subsidy allegations ranged between 15 and 25 percent, and we are proceeding as expeditiously as possible with respect to our investigation of Korean imports.

The remainder, other nontraditional suppliers, includes Spain, Argentina, Sweden, Taiwan, Australia, and Finland. With respect to many of those countries, we do have current investigations that are ongoing. With respect to some of the others, where we don't have investigations, we anticipate more.

Our door is open, and we pledge to you and to the industry that when we do receive complaints, we will process them as expeditiously as possible.

From that chart, Mr. Chairman, and my analysis of it, I draw several conclusions.

One, it appears that less than half of the imports—indeed, substantially less than half—are considered by the steel industry to be the source of their import problem.

Second, we believe that our unfair trade laws are working to address the problem. We note United States Steel's written submission in the case, where they said:

> United States Steel is encouraged by the fact that both the Department of Commerce and the International Trade Commission have done quite a good job in enforcing the unfair trade statutes. We at United States Steel remain cautiously optimistic that we may achieve this needed relief from imports via the unfair trade practices route.

Third, we believe that the situation arbitrarily established global quotas are not required to meet the problem.

Mr. Blum has provided a summary of the reasons why the 15-percent steel quota bill should not be enacted. As Secretary Baldrige told the House Ways and Means Committee in hearings held earlier this year, it's "a job-loser, a competition-loser and an inflation-raiser." That pretty well sums it up.

As you noted, Mr. Chairman, it would also lead to retaliation against U.S. exports by our trading partners. Now, I know some of the industry will say, and have said, that retaliation would be pointless. They note the United States-European Community steel arrangement, the voluntary restraints of Japan, Mexico and South Africa and say that since quotas wouldn't depart in any major way from recent or potential limitations, there would be little or no disposition to retaliate.

To them, Mr. Chairman, I would say:

> You can't have it both ways. You can't, on the one hand, argue that 25-percent import penetration is unacceptable; that U.S. industry requires an extensive period of significant protection in order to restructure; and that the import penetration number must be dramatrically reduced from 25 percent to 15 percent; but, on the other hand, say, "Not to worry. Only a few countries are going to be impacted, and there would be little or no disposition to retaliate."

It's impossible to reconcile those two separate positions.

[Mr. Homer's prepared statement follows:]

STATEMENT OF ALAN F. HOLMER
DEPUTY ASSISTANT SECRETARY OF COMMERCE
FOR IMPORT ADMINISTRATION

Mr. Chairman, I appreciate this opportunity to testify on the state of the U.S. steel industry and the impact of steel imports on the industry and other parts of the U.S. economy.

All of us are deeply concerned about the health of the domestic steel industry. Steel is and will remain critical to our sustained economic health and long-term growth. The key to the future health of the domestic steel industry is its ability to adapt to the growing structural imbalance between diminishing demand and expanding global steelmaking capacity.

Economic recovery has improved the immediate demand outlook for steel. However, fundamental economic and technological changes have contributed to the structural decline in demand for steel products. In 1954, our economy consumed 111 tons of steel per $1 million of real GNP. By 1974, this figure had slipped to 92 tons, and last year it stood at 56 tons -- or half of what it was 20 years ago. The best example of this phenomenon is in the automotive industry, where the average car made in 1983 contained 650 pounds less steel than one made eight years before.

Technology has also enhanced the strength and versatility of steel products, so less is needed in many applications. In addition, plastics, aluminum and other materials are often used as less expensive, lighter weight and more energy efficient substitutes for steel.

On the supply side, equally important changes have occurred. While steel industries in many industrialized countries are plagued by excess uneconomic capacity, more nations in the developing world are building or expanding their own steelmaking facilities. They have entered aggressively into world export markets.

Domestic mini-mills have also provided increased competition for integrated producers. The mini-mills' share of the U.S. market has grown from less than three percent in 1960 to roughly 18 percent today. These companies have captured a large portion of the rod, bar and light structural shapes markets. Future technological breakthroughs would permit them to penetrate the much larger market for flat rolled products.

To rectify this imbalance between demand and supply, integrated producers must reduce production costs, increase production efficiencies, and generate sufficient capital to modernize steel facilities. How best to accomplish these objectives is a question best answered by the industry itself.

Government can help ensure that the industry doesn't face unfair impediments to modernization and restructuring. In so doing, we must be careful to avoid self-defeating policies that would provide illusory and "quick fix" assistance at the expense of our broader economic interests. This is why the Administration opposes S. 2380, the "Fair Trade in Steel Act of 1984."

First, arbitrarily established quotas on all steel imports would have a debilitating effect on the U.S. economic recovery. Steel consumers -- ranging from nut and bolt manufacturers to auto, tractor, appliance and machine tool makers -- would be hit with a one-two punch of higher priced raw materials and increased import pressure as our trading partners shift their exports "downstream" from steel into products made from steel.

Many of these industries already face strong import pressures themselves. Imposing steel quotas would further reduce the competitiveness of these industries and increase import competition. This would be a particular problem on the West Coast, where many U.S. steel fabricators rely heavily on imported steel. Bearing in mind that the metal working sector alone employs 20 times more people and accounts for almost 10 times more of the GNP than does the steel industry, steel quotas would greatly undermine the vitality of our nation's entire industrial base.

The Federal Trade Commission (FTC) recently estimated that 15 percent quotas on carbon and alloy steel imports would cost U.S. consumers $768 million each year. The FTC also estimated that 15 percent quotas would create only 8,000 more jobs -- with a price tag of $97,000 per job. Significantly, these estimates do not take into account the likely possibility that the U.S. steel industry would use market protection to raise steel prices.

Second, by indiscriminately and dramatically reducing the degree of foreign competition in the U.S. market, quotas risk giving the industry a false sense of security against efficient competitors at home and abroad. As such, they would discourage critical adjustments to structural changes in the international market.

Considering that across-the-board quotas would likely retard the adjustment process and cause American integrated steel producers to become less competitive, what can we expect after quotas expire? If this kind of protection from foreign competition is granted for a period of five or eight years, the industry will be unprepared to compete with foreign producers or to adapt to changes in the world and domestic markets. Under these circumstances, it would become nearly impossible for us to deny continued protection to an industry unprepared for competition.

Third, despite their intent, quotas would reduce the demand for domestic steel and would be particularly harmful to certain segments of the U.S. steel industry. To the extent that quotas lead to increases in the price of domestic steel, they may further encourage the substitution of other materials for steel. Price increases would also cause domestic steel fabricators to lose markets to foreign firms both at home and abroad, resulting in additional reductions in the demand for domestic steel.

Domestic steel processors such as re-rollers and welded pipe producers may find themselves cut off from foreign suppliers as a result of quotas, and domestic suppliers (who may also be competitors) may be unable or unwilling to meet their needs. Arbitrary quotas could force some of these operators, especially those on the West Coast, to shut down.

Quotas would encourage upgrading into higher value products within individual quota categories. This would increase the competition in these relatively lucrative profit lines -- cutting into the profits earned by all producers.

Finally, legislated quotas would violate our own international obligation not to impose import restrictions without an impartial investigation and injury finding. It would represent a blatant contradiction of our repeated commitments to resist protectionist measures, and would leave our export industries vulnerable to either an immense compensation bill or severe foreign retaliation.

In retaliation for U.S. specialty steel import relief last year, the European Communities (EC) imposed tariffs and quotas on U.S. exports of security alarms, athletic equipment and chemical products. Given that our 1983 specialty steel imports were valued at $343 million, compared to total steel imports valued at $6.4 billion, we risk losing billions of dollars in export trade if S. 2380 is enacted.

Administration Alternatives

The Administration is firmly committed to the objective of a revitalized steel industry -- one capable of competing head-on with all foreign producers on the basis of free and fair trade. The Administration has introduced liberalized capital cost recovery allowances for equipment and facilities, and revised environmental regulations to free up scarce additional capital for modernization. We have tried to institute policies that provide the steel industry with an appropriate environment in which to restructure. More than anything else, the Administration can provide the climate for a strong, sustained, non-inflationary economic recovery.

We recognize that the steel industry is generally among the last to participate in a national economic recovery. But starting in the latter part of 1983, we have seen the industry begin to benefit from increased consumer demand in the automotive and appliance sectors. More recently, demand in the capital goods sector also has risen.

Domestic steel industry capability utilization averaged 75 percent in the first quarter of 1984, and averaged 81 percent in April and 80 percent in May. This compares to an average of 55 percent for 1983. Raw steel production for the first quarter of 1984 totaled 27 million net tons, up 48 percent from the same quarter last year. It equalled 9 million tons in April and May -- the highest monthly raw steel production levels since September 1981.

Raw steel production and capability utilization have decreased somewhat in June. This may be partly attributable to re-tooling in the auto industry and also to temporary inventory reduction. The outlook, however, is for continued economic expansion. Data Resources, Inc. (DRI) has forecast 1984 U.S. apparent steel consumption to be 96 million tons, up 16 percent from last year and 28 percent from 1982. DRI forecasts apparent consumption to average 103 million tons for the remainder of the decade.

Not surprisingly, economic recovery and rising steel consumption, especially in the consumer goods sector, have caused steel imports to increase in recent months. Imports in the first five months of 1984 were 81 percent above the level imported in the same months of 1983. Over 40 percent of this growth was in sheet products, where domestic producers have experienced delivery lead times of up to 10 weeks or more.

Where imports have increased as a result of unfair trade practices, we continue to enforce vigorously our unfair trade laws to correct the problem.

- Since January 1982, the Department of Commerce has completed or is now conducting over 140 antidumping and countervailing duty investigations on steel imported from 23 countries.

o This year alone, we have completed or are now conducting close to 60 investigations concerning 16 steel products from a total of 12 countries.

I submit that our unfair trade laws are working to correct the problem of unfairly traded steel imports. U.S. Steel, in its written submission to the International Trade Commission on the current steel Section 201 case, said that "U.S. Steel is encouraged by the fact that both the Department of Commerce and the International Trade Commission have done quite a good job in enforcing the unfair trade statutes." They add, "We at U.S. Steel remain cautiously optimistic that we may achieve this needed relief from imports via the unfair trade practices route."

Twenty-four percent of our steel imports in 1983 were from the EC. You rarely hear complaints from the industry about those imports, except with respect to pipe and tube products. EC steel producers are subject to export limits under the U.S.-EC Steel Trade Arrangement, which was negotiated by the Department of Commerce in 1982 in exchange for the withdrawal of 44 dumping and subsidy complaints filed by U.S. steel producers. The Arrangement is operating effectively to relieve the U.S. industry of injury from unfairly traded EC steel. Imports from the EC fell from 5.6 million tons in 1982 to 4.1 million tons in 1983, and their share of our market dropped from 7.4 percent to 4.9 percent.

Nor do you hear significant complaints from the industry regarding imports from Japan and Canada, which accounted for another 39 percent of total 1983 imports. Imports from Japan decreased from 5.2 million tons in 1982 to 4.2 million tons in 1983, reflecting the depressed market conditions of last year. The upswing in Japanese imports this year reflects their producers' tendency to follow closely the direction of our market.

What remains--less than 40 percent of our imports--comes from developing countries and other non-traditional suppliers that have significantly increased their share of our market in recent years. These imports are a source of concern, but domestic steel producers have moved aggressively under existing laws to counter increases from these countries that are due to unfair trade.

Where trade practices are unfair, we have assess stiff penalties. For example, we recently found subsidies of 37 percent on hot and cold rolled sheet from Brazil, and issued a preliminary dumping finding of 176 percent on wire rod from Argentina. Nearly 70 percent of our 1983 imports from countries other than the EC, Japan and Canada is now subject to either pending unfair trade investigations, antidumping or countervailing duty orders, suspension agreements or unilateral export restraints.

In an effort to avoid severe unfair trade penalties, Mexico, South Africa and Brazil have unilaterally and voluntarily promulgated laws and regulations to reduce sharply most of their steel exports to the United States. Imports from these countries represented 14 percent of 1983 U.S. imports. Each country's restraints are scheduled to last for three years:

- The Mexican program specifically limits 13 products (covering 93 percent of their 1983 exports), with a tonnage reduction of 32 percent from 1983 levels in the first year and further sharp cuts thereafter.
- South Africa is restricting exports of seven products, bringing its U.S. market share down to that country's 1979-1981 average.
- Brazil is reducing exports of plate and sheet products by 47 percent compared to 1983 levels.

In the cases of Mexico and South Africa, the petitioning U.S. company has withdrawn its unfair trade complaints because it believes that the export restraints will mitigate the injury caused to the U.S. industry.

The strict enforcement of our trade laws is eliminating the unfair advantages held by certain foreign producers in our market. But it will not, and should not, eliminate the legitimate competitive advantages other countries may have from lower costs and greater efficiencies. In the interests of both the steel industry and the economy as a whole, we should continue to follow those policies that encourage the industry to complete the process of adjustment it has already begun.

The CHAIRMAN. Thank you very much.

In order to stay on schedule, I'll just limit myself to a question or two to each of you, and the rest of the questions will be submitted to you for answer in the record.

You've indicated some fairly dramatic voluntary cutbacks by companies here.

To what part do you attribute their willingness to cut back voluntarily and not accelerate their imports into this country by the threat of the introduction of S. 2380?

Mr. HOLMER. It cuts both ways, Mr. Chairman. There was the threat of enactment of this bill. There was also the threat of imposition of global quotas through the section 201 process, and there began to be extensive discussion of that in the trade community beginning in mid- to late-1983.

I think part of the reason why the import penetration numbers have been as high as they have been is because of that threat and because of the concern that many of the exporters have had. They wanted to make sure that they got their products in before the quotas were imposed.

The CHAIRMAN. Have the penalties imposed, pursuant to antidumping and countervailing duty laws, been sufficient to offset the unfair practice as utilized by these countries?

Mr. HOLMER. We believe that they have been. I take very seriously the responsibility that Secretary Baldrige has given to me to make sure that if there is dumping or if there are subsidies, we find them.

What you do, for example, in a dumping case is you compare the home market price in the foreign country with the price that the product is sold for in the United States, and you impose a duty equal to the difference, in order to level the playing field.

The CHAIRMAN. Thank you.

Mr. Blum, how valuable is the President's discretion, under the section 201 process, in avoiding retaliatory measures by our trading partners, the very kind of retaliation that you have pictured in your testimony?

Mr. BLUM. I can enumerate five reasons why that flexibility and discretion that the President has under the statute is helpful.

First of all, I think our trading partners perceive a very real difference between unilateral protectionist measures imposed on them by a foreign government and those measures which are GATT-consistent, temporary, transparent and which are worked out in a more collaborative way. I will point out that in the ITC process, there have been extensive hearings in which foreign producers and importers participated.

Second, as I suggested, one way for the President to formulate the relief is through negotiated, orderly marketing agreements which can be tailored to meet the specific needs and concerns of various exporters.

Third, there is the possibility under section 201 to impose not only quotas, but also tariffs or tariff rate quotas or some combination of the three. Therefore, the remedy can be sometimes tailored to fit the specific characteristics of the product under consideration. In our specialty steel relief, we decided that it was appropriate to put tariffs on two products and quotas on three others.

Fourth, as we did in specialty steel, we can exempt a number of products from the relief, particularly when we find that there is no domestic production. Even though these tend to be fairly small items, the accumulation of them can add up to significant amounts of tonnage and to valuable tonnage for foreign producers, and that also affects the mentality when it comes to CT compensation and retaliation.

Finally, under section 201, the President has at any time the ability to modify or terminate the relief, should market conditions change drastically or should, for any reason, he decide that it is not achieving the desired objective of helping the industry to adjust to changing conditions.

So for these reasons, we see some significant differences between the quota bill as it's written and the possibilities of these under section 201.

The CHAIRMAN. I want to thank both of you very much. I appreciate your testimony.

Our next witnesses to come forward, please, are Mr. Robert Peabody, president of the American Iron & Steel Institute, and Mr. Frank Luerssen, chairman and president of Inland Steel.

I'd like, before our witnesses testify, to make the happiest announcement I have been able to make for some time. We have just received unemployment figures for the State of Illinois.

We have been lagging behind the nation for some time, and we have had considerable difficulty with unemployment. Our figure for June 1983, was 12.2 percent; for May of this year, 9.1 percent.

The figure just released today, June 1984, for Illinois, is 8.2 percent. There is an astounding, in 1 year, drop of 4 percent in unemployment. If extended nationwide, that would reduce the deficit by $140 billion, because it's a $35 billion deficit reduction for every 1 percent drop in unemployment.

I think this very fact proves that the heart of the Midwest now, Illinois, is responding to this economic recovery, which I have been absolutely certain would work. It is the most rapid economic recovery the world has ever seen after a recession, and it certainly is putting people back to work.

Last month the President announced in the Rose Garden, when we were there together, that in the period of 17 months, we have reduced unemployment by 5,400,000 people. Illinois at that time, a month ago, had not kept up. We are catching up, and things do look better with every single person that goes back to work.

If someone goes off of unemployment compensation, food stamps, certainly welfare and goes on a private payroll and with their first check they start withholding and paying taxes, reducing that deficit, the most important thing that happens is that suddenly a person, as my father found when he was laid off in the so-called Great Depression, is restored as a full partner in the economic process of this country.

That really is what this hearing is all about: how do we take this, one of the most important single industries in the country, how do we keep American steel strong, vigorous, dynamic and hiring people back, rather than the pattern that we've had in the past, laying them off.

I'm very honored indeed to have two outstanding witnesses now speaking on behalf of the steel industry. We'll start with Mr. Robert Peabody, who we thank for coming to Chicago to testify on behalf of the American Iron & Steel Institute.

We will have a number of questions that will be raised by your testimony, I know, so if you can summarize your testimony, the Chair will appreciate it very much.

STATEMENT OF ROBERT B. PEABODY, PRESIDENT, AMERICAN IRON & STEEL INSTITUTE, WASHINGTON, DC

Mr. PEABODY. Thank you very much, Mr. Chairman.

I hope the day will come soon—it certainly has not arrived yet—that you can make the same announcement with respect to unemployment for the steel industry that you have passed on as good news in respect to other industries.

Mr. Chairman, I am Robert Peabody, president of the American Iron & Steel Institute [AISI], and I'm testifying today on behalf of the domestic member companies of the AISI. I greatly appreciate the opportunity to testify before this committee because there's an air of unreality which marks much of the current foreign policy debate over domestic steel producers' support for a temporary period of comprehensive quotas.

Thus, one main purpose of my testimony today is to unmask some of the fallacies in this current debate. In so doing, I also hope to show that the steel trade crisis now confronting our country has important foreign policy dimensions, since foreign governments are largely responsible for the problem and only our Government can solve it.

Before presenting some facts and figures to support this thesis, I would first like to review for you the way we see the problem and its solution.

First, we have repeatedly stated that we wish to compete vigorously in the United States and world steel markets in an open international trading system.

Second, we've long asserted that we cannot do so because most of the steel industries of other nations are either owned or guided and directed as well as subsidized by their governments, running heavy losses year after year, yet exporting their products to the U.S. market at virtually any price and doing so largely from protected home markets.

Third, we have recognized that our private-enterprise, market-based producers will never be able to compete, in the United States or any other market, with government-managed and funded foreign producers, because those producers operate under nonmarket procedures, which distort conditions of competition and the principles of free trade and comparative advantage.

Fourth, we have concluded that the cumulative damage this has done to our capital base, to our rate of capital formation and ultimately to our ability to compete with imported steel is now so great that a temporary period of global steel import limits has become absolutely necessary, not only for the American steel industry, but also for U.S. national security.

I would like to stress a theme that I believe best illustrates the truth of our story. My message is simply that it is not we who are leading the world down a new path of rampant protectionism and away from market-based economics. The fact is that most other countries' markets for steel are already heavily protected and aided by governments and have been for a very long time.

In contrast, when one bothers to look beyond the platitudes about U.S. protectionism with respect to steel, one sees that our industry's basic approach has been to use U.S. trade laws. Unfortunately, these have been largely ineffective, and the United States remains the most important, most open and most abused steel market in the world.

There is unfortunately not enough time to list all of the specifics of closed markets abroad, open-ended foreign government financial assistance and the resulting disruption of the U.S. market, but I can offer you a few representative examples.

The Japanese like to express their great concern about rising U.S. protectionism, but at no time from the end of World War II until 1978 did Japan's steel imports exceed 1 million tons. Today, at a time when Japanese imports still account for less than 5 percent of domestic consumption in Japan, Japanese import policies are becoming even stricter.

For example, the Government is now studying options for stiffening antidumping regulations, and the Japan Metal Bulletin recently printed several articles noting that the newly formed Japan Iron and Steel Importers' Institute, which was formed in an effort to maintain orderly imports of steel products, has decided to reduce its imports of steel-plate and hot-rolled sheet and coil. This action was apparently the result of unacceptable increases in these imports from such lower-cost suppliers as Korea and Taiwan.

The European Community frequently warns us about the threat of a trade war due to rising U.S. protectionism, but ever since 1978, the European Community has negotiated bilateral steel trading arrangements.

Currently there are 14 such arrangements which specify both the quantity and the price level allowed for each foreign country wishing to export to the European Community. In addition, even the 20 percent of European Community steel imports not covered by these arrangements are subject to the European Community's basic price system, which uses benchmark prices higher than those set in the bilateral arrangements.

Because European Community imports are now about 12 percent of the European Community market, the European Community is also developing new surveillance measures and new trade policy tools to control imports even further.

I'd like to point out, Senator, that the European Community permits about 12 percent foreign steel into the European Community. Current imported steel levels are about 25 percent into this country.

With respect to the developing countries, we hear further complaints that our growing protectionism is the potential cause of further economic chaos and political instability in those nations. Yet the American steel industry was not responsible for their deciding to build millions of tons of new steel-making capacity at a time of excess world overcapacity and declining domestic demand. The most advanced of the developing countries maintain import barriers far more severe than does the United States.

Argentina, Mexico, Brazil, South Korea, and Taiwan all require special import licenses for steel products, and importation is usually restricted if the product in question is manufactured in those countries. In Brazil it's called the "Law of Similars." In most others it's simply called "development."

In addition, some developing countries, such as Brazil, still use tariffs as high as 200 percent to keep steel imports out. And while others, such as Mexico, have never even bothered to join the GATT, the banks which have loaned huge sums of money to Brazil and Mexico—and some U.S. foreign policymakers—now say that it's necessary for those countries to limit imports still further.

In Japan, the Central Bank of Japan and the Japan Development Bank played critical roles in the rise of the Japanese steel industry to export dominance. They did so by following the lead of the MITI in helping provide the Japanese steel industry with preferential access to the cheap and plentiful investment capital needed for modernization and expansion in the 1950's and 1960's. With this targeted government aid, the Japanese steel industry was able to increase its capacity in the 1950's and 1960's by nearly 1,800 percent.

In Belgium, France, and Italy, the government owns or controls 100 percent of integrated steel production. In the EC as a whole, the major state-owned and managed steel companies have lost over $21 billion since 1975, yet they remain in business, continue to modernize and, in some cases, even to expand, thanks to some $25 billion worth of government help.

The two largest government-owned steel companies in France lost almost $2 billion in 1983, so the French Government will spend between $3.4 and $3.8 billion in additional funding in hopes of making the industry profitable by 1987.

In the United Kingdom, the government-owned British Steel Corporation has lost about $4 billion just since 1979. The Thatcher government now has provided it with $1½ billion in state aid over the last 2 years alone.

In Italy, the state-owned producer Finsider will receive $4.6 billion in state aid during the period 1981 to 1985. In Belgium, there's now serious concern that Cockerill will be forced into bankruptcy if the EC follows through with its plan to eliminate all state subsidies by the end of 1985.

Finally, with respect to free market-oriented West Germany, both the American Metal Market and the London Financial Times have reported that the current West German aid package for its industry totals over $1 billion.

In the developing countries, huge sums of money have been borrowed and spent, first to construct new integrated mills and then to keep them running despite losses. The Governments of Mexico, Argentina, South Korea, and Taiwan all own or control 100 percent of integrated steel production. In Brazil it's 77 percent.

Brazil, incidentally, probably represents the best example of the problem. According to the Journal of Commerce, state-owned Siderbras closed 1982 with a net worth of $2.8 billion and total debt, domestic and international, of $15 billion.

And 1 month later the Journal was reporting that Brazil had started up another huge plant owned 51 percent by the government, which—and I quote—"is faced with the herculean challenge of finding markets for yet another 1.5 million metric tons [illegible] steel next year."

The interplay between closed markets abroad and open-ended foreign government financial assistance has resulted in continuing abuse of the U.S. market. For foreign governments, exports to the U.S. market have long been a way to maintain domestic employment, help pay foreign debts and earn dollars.

For the American steel industry, foreign dumping and subsidization have been a serious continuing problem which U.S. trade laws have failed to solve. Let me given you a few recent examples.

According to recent Department of Commerce rulings, Japanese steel companies have dumped seamless pipe and tube in the U.S. market at unfair trading margins of about 23 percent and stainless-clad plate at margins of 14 percent.

In the European trade cases, Commerce found that the French, British, and Italian Governments subsidized various carbon steel products at margins of 21, 20, and 26 percent. It found preliminarily that the French, British, Italian, and German steel companies dumped steel into the United States at margins of 28, 19, 41, and 19 percent.

Under considerable foreign policy pressures, the U.S. Government settled both sets of cases through the quantitative restrictions known as the United States-European Community arrangements.

More recently, Commerce has found that Taiwanese producers have dumped certain welded pipe and tube products in the U.S. market at margins of about 44 percent and that Brazilian steel companies have dumped wire rod and carbon plate and sheet at margins of about 76 and 100 percent.

In addition, Commerce has recently ruled that the Brazilian Government has subsidized its tool steel and plate and sheet exports to the U.S. market at margins of about 19 and 62 percent, respectively.

Mr. Chairman, there are many more examples I could cite. Attached to my statement is a document, "World Steel Profiles." I would like, if you would, please, to permit that to go into the record.[1]

I hope that this will serve as a useful document, since it contains many of the facts that have been reported in the public press with respect to foreign government practices.

The CHAIRMAN. It will be incorporated in the record.

Mr. PEABODY. Thank you very much, Mr. Chairman.

Unfortunately, "World Steel Profiles" does not tell the whole story. It doesn't reveal the overall import picture of the growth of import penetration from 2.3 percent in the 1950's to 9.3 percent in the 1960's, 15.3 percent in the 1970's, to a record 25 percent of the U.S. market now.

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[1] See page 59.

It doesn't include the studies of European and Japanese dumping in 1976 and of European subsidies in 1979 and 1981, which show that the injury to the domestic industry and its workers caused by unfairly traded products exceeded $7 billion.

It doesn't give the complete story of how foreign producers first overbuilt and have since attempted to resist reduction in their capacity, and it says nothing about the data developed by Peter Marcus, and independent Wall Street analyst.

These data show that total U.S. costs for net tons shipped are competitive against major foreign producers selling in the U.S. market, even with the current misalignment of exchange rates, and that as of the third quarter, 1983, at actual operating rates, the American steel industry had higher labor productivity rates than both Japan and the West European countries. Those numbers, in fact, were 6.5 hours per net ton shipped in the United States compared to 7.3 and 11.4 for Japan and West Germany.

Mr. Chairman, I realize that labor productivity rates, self-help efforts, and investment capital shortfalls may not seem to relate directly to the concerns of this committee. I think, however, in the long run they are relevant, and I've attached to my statement the testimony that AISI Chairman Donald Trautlein, of Bethlehem Steel, submitted to the Senate Finance Committee, and I would like to have that included in the record, also, sir.[2]

The CHAIRMAN. It will be included.

Mr. PEABODY. Mr. Trautlein's testimony explains in great detail why the industry believes and is supporting comprehensive quotas and that contrary to the perception of some, the industry is competitive in its own market but for unfair trade practices.

Partial solutions to unfair trade practices simply have not done the job. The industry has filed hundreds of unfair trade petitions, and the steel trade problem today is worse than ever. Because of the need for a comprehensive solution, Bethlehem and the Steel Workers Union filed a section 201 petition, and the domestic member companies of AISI support the steel quota bill.

After having lost more than $6 billion over the last 2 years, we can no longer afford to wait any longer for action to prevent further disruption of the U.S. market.

There's one issue that is constantly raised, Mr. Chairman—and you heard Mr. Blum speak to it at length—and that's the question of retaliation.

I believe the retaliation issue is a red herring. In the cases where retaliation has occurred, it's come only after months of talking and as a measured response to perceived injury. If you look at who might theoretically retaliate, I think you'll find that virtually all of the parties are already covered in such a manner that retaliation would be pointless.

The EC, for example, is under the restraint of the EC arrangement. The Japanese are operating their own voluntary restraints. Mexico and South Africa have voluntarily announced restraint programs.

Many other country sources not yet covered are or will be subject to antidumping or antisubsidy actions as a consequence of petitions filed. I would submit that, since legislated quotas won't depart in any really material way from recent or potential limitations that will affect those sources, there would be little or no disposition to retaliate.

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[2] See page 132.

Mr. Chairman, I believe the foreign relations aspect of the problem is simply this: the U.S. ability to lead and defend the free world requires a strong and healthy steel industry.

The United States is no longer in the position of economic supremacy it was during the 1950's and 1960's. We simply cannot afford to let other nations get a free ride in this market, especially when their industries have become social welfare agencies, operating at the expense of both their taxpayers and ours.

As it is, the United States is the only major steel industry in the developed world that cannot supply its own steel needs during periods of moderately strong economic activity.

We believe the Senate Foreign Relations Committee has an interest in seeing that this foreign dependence does not increase further. Since the national security aspect of the steel trade problem is directly relevant to the foreign policy concerns of this committee, I would request, Mr. Chairman, that the statement on this subject by General Slay before the Finance Committee's Trade Subcommittee be inserted into the record.[3]

The **Chairman**. It will be incorporated in the record. We have a full statement on that.

Mr. **Peabody**. Thank you, sir.

Finally, we understand that steel industry conditions in other countries affect U.S. foreign policy. When steel riots in Belgium bring down the government and when the IMF [International Monetary Fund] calls on Brazil to increase its exports as a condition of continued aid, these are legitimate U.S. foreign policy concerns.

All we are saying, however, is that the American steel industry should not be liquidated to serve these other interests and be forced out of business by the foreign policy costs incurred in the U.S. national interest.

What we need is immediate Government action to redress in a definitive way the imbalance that threatens to capsize our industry. The Fair Trade in Steel Act provides that solution.

We believe this legislation must be enacted because it will help to ensure the survival of the American steel industry, and that, Mr. Chairman, is in the long-term national and international interest of the United States.

Thank you very much, sir.

[Mr. Peabody's prepared statement and attachments follow:]

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[3] See page 168.

PREPARED STATEMENT OF ROBERT B. PEABODY

I am Robert Peabody, President of the American Iron and Steel Institute (AISI), and I am testifying today on behalf of the 56 domestic member companies of the AISI which together account for about 85 percent of the raw steel produced in the United States.

I greatly appreciate the opportunity to testify before this Committee in the major steel-producing state of Illinois, because there is an air of unreality which marks much of the current foreign policy debate over domestic steel producers' support for a temporary period of comprehensive quotas. Thus, one main purpose of my testimony today is to unmask some of the fallacies in this current debate. In so doing, I also hope to show that the steel trade crisis now confronting our country has important foreign policy dimensions, since foreign governments are largely responsible for the problem, and only our government can resolve it.

Before presenting some facts and figures to support this thesis, I would first like to review for you the way we see the problem and its solution.

o First, we have repeatedly stated that we wish to compete vigorously in the U.S. and world steel markets in an open international trading system.

o Second, we have long asserted that we cannot presently do so because most of the steel industries of other nations are either owned, or guided and directed as well as subsidized by their governments - running heavy losses year after year, yet exporting their products to the U.S. market at virtually any price, and doing so largely from protected home markets.

o Third, we have recognized that our private-enterprise, market-based producers will never be able to compete, in the U.S. or any other market, with government-managed and funded foreign producers, because those producers operate under non-market procedures which distort conditions of competition and the principles of free trade and comparative advantage.

o And fourth, we have concluded that the cumulative damage this has done to our capital base, to our rate of capital formation and ultimately to our ability to compete with imported steel is now so great that a temporary period of global steel import limits has become absolutely necessary - not only for the American steel industry, but also for U.S. national security.

In the brief time available, I would like to stress a theme that I believe best illustrates the truth of our story. My message is simply that it is not we who are leading the world down a "new" path of rampant protectionism and away from market-based economics: the fact is that most other countries' markets for steel are already heavily protected and aided by governments and have been for a very long time. In contrast, when one bothers to look beyond the platitudes about U.S. "protectionism" with respect to steel, one sees that our industry's basic approach has been to use U.S. trade laws. Unfortunately these have been largely ineffective, and the U.S. remains the most important, most open and most abused steel market in the world.

There is unfortunately not enough time to list all of the specifics of closed markets abroad, open-ended foreign government financial assistance and resulting disruption of the U.S. market. But I can offer you a few representative examples.

Closed Markets Abroad

The Japanese like to express their great concern about rising U.S. protectionism. But at no time during the period 1950-78 did Japan's steel imports exceed one million tons. And today, at a time when Japanese imports still account for less than 5 percent of domestic consumption, Japanese import policies are becoming even stricter. For example, the government is now studying options for stiffening antidumping regulations. And the Japan Metal Bulletin recently printed several articles noting that the newly formed Japan Iron and Steel Importers' Institute - which was formed "in an effort to maintain orderly imports of steel products" - has decided to reduce its imports of steel plate and hot-rolled sheet and coil. This action was apparently the result of unacceptable increases in these imports from such lower cost suppliers as Korea and Taiwan.

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The European Community (EC) frequently warns us about the threat of a "trade war" due to rising U.S. protectionism. But ever since 1978, the EC has negotiated bilateral steel trading arrangements. Currently, there are 14 such arrangements which specify both the quantity and the price level allowed for each foreign country wishing to export to the EC. In addition, even the 20 percent of EC steel imports not covered by these arrangements are subject to the EC's basic price system, a form of trigger price mechanism which uses benchmark prices higher than those set in the bilateral arrangements. But because EC steel imports are now about 12 percent of the EC market, the EC is also developing new surveillance measures and new trade policy tools to control imports even further.

With respect to the developing countries, we hear frequent complaints that our growing protectionism is the potential cause of further economic chaos and political instability in those nations. Yet the American steel industry was not responsible for their deciding to build millions of tons of new steelmaking capacity at a time of excess world overcapacity and declining domestic demand. Moreover, the most advanced of the developing countries maintain import barriers far more severe than does the U.S.

Argentina, Mexico, Brazil, South Korea and Taiwan all require special import licenses for steel products, and importation is usually restricted if the product in question is manufactured in those countries. In Brazil it's called "Law of Similars". In most others, it's simply called "development". In addition, some developing countries, such as Brazil, still use tariffs as high as 200 percent to help keep steel imports out. And while others, such as Mexico, have never even bothered to join the GATT, the banks which have loaned huge sums of money to Brazil and Mexico - and some U.S. foreign policy makers - now say that it's necessary for these countries to limit imports still further.

Foreign Government Ownership, Control and/or Subsidies

In Japan, the Central Bank of Japan and the Japan Development Bank played critical roles in the rise of the Japanese steel industry to export dominance. They did so by following the lead of the Ministry of International Trade and Industry in helping provide the Japanese steel industry with preferential access to the cheap and plentiful investment capital it needed for modernization and expansion in the 1950's and 1960's. And with this targeted government aid, the Japanese steel industry was able to increase its capacity during the 1950's and 1960's by nearly 1800 percent. Most recently, the government of Japan has provided various financial aids to the electric furnace segment of the Japanese steel industry, by declaring that segment a "recession cartel".

In Belgium, France and Italy, the government owns and/or controls 100 percent of integrated steel production. In the EC as a whole, the major state-owned and managed steel companies have lost over $21 billion since 1975, yet they remain in business, continue to modernize and, in some cases, even to expand - thanks to $25 billion worth of government help. And between now and the end of 1985, EC governments will be increasing subsidy benefits to their steel companies.

The two largest government-owned steel companies in France lost almost $2 billion in 1983, so the French government will spend between $3.4 and 3.8 billion to make its state-owned industry profitable by 1987. In the UK, the government-owned British Steel Corporation has lost about $4 billion since 1979 but, since there are no private sector buyers in sight, the Thatcher government has provided it with about $1.5 billion in state aid over the last two years alone. In Italy, the state-owned producer Finsider will receive $4.6 billion in state aid during the period 1981-85. In Belgium, there is now serious concern that state-owned Cockerill-Sambre will be forced into bankruptcy if the EC follows through with its plan to eliminate all state aids by the end of 1985. And finally, with respect to free market-oriented West Germany, the American Metal Market and London Financial Times both recently reported that the current West German aid package for its steel industry totals over $1 billion.

In the developing countries, huge sums of money have been borrowed and spent, first to construct new integrated mills, and then to keep them running despite losses. The governments of Mexico, Argentina, South Korea and Taiwan all own and/or control 100 percent of integrated steel production. In Brazil the figure is 77 percent. Brazil, incidentally, probably represents the best example of the problem. According to the Journal of Commerce, state-owned Siderbras closed 1982 with a net worth of $2.8 billion and total debt, domestic and international, of $15 billion. And one month later the Journal was reporting that Brazil had started up another huge plant owned 51 percent by the government which, and I quote, is "faced with the Herculean challenge of finding markets for yet another 1.5 million metric tons of steel next year."

Abuse of the U.S. Market

The interplay between closed markets abroad and open-ended foreign government financial assistance has resulted in continuing abuse of the U.S. market. For foreign governments, exports to the U.S. market have long been a way to maintain domestic employment, help pay foreign debts and earn valuable dollars. For the American steel industry, foreign dumping and subsidization have been a serious continuing problem which U.S. trade laws have failed to solve. Let me give you a few recent examples.

According to recent Department of Commerce rulings, Japanese steel companies have dumped seamless pipe and tube in the U.S. market at unfair trading margins of about 23 percent, and have dumped stainless clad plate in the U.S. at margins of 14 percent.

In the massive unfair trade cases filed against the Europeans in January 1982, Commerce found that the French, British and Italian governments subsidized various carbon steel mill products to the U.S. market at margins of about 21, 20 and 26 percent, respectively. It also found preliminarily that French, British, Italian and German steel companies dumped steel into the U.S. market at margins of about 28, 19, 41 and 19 percent, respectively. Under considerable foeign policy pressures, the U.S. government settled both sets of cases through the quantitative restrictions known as the U.S.-EC Arrangements.

More recently, Commerce has found that Taiwanese producers have dumped certain welded pipe and tube products in the U.S. market at margins of about 44 percent, and that Brazilian steel companies have dumped wire rod and carbon plate and sheet at margins of about 76 and 100 percent, respectively. In addition, Commerce has recently ruled that the Brazilian government has subsidized its tool steel and plate and sheet exports to the U.S. market at margins of about 19 and 62 percent, respectively.

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Mr. Chairman, there are many more examples to cite. I therefore ask that our World Steel Profiles be inserted into the record in its entirety. This document illustrates the extent of foreign government ownship, control, subsidization and protection of their steel industries - which then ship their steel exports to the U.S. market at unfairly traded prices. I hope this will serve as a useful source document, since it contains many of the facts and figures I've just cited, and also includes reports on the very similar policies and practices of such additional countries as Australia, Spain and South Africa.

Nevertheless, for us, Mr. Chairman, World Steel Profiles does not tell the whole story.

o It doesn't reveal the overall import picture which is that total U.S. steel import penetration has grown from 2.3 percent in the 1950's, to 9.3 percent in the 1960's, to 15.3 percent in the 1970's, and to a record 25-26 percent of the U.S. market today.

o It doesn't include the studies of European and Japanese dumping in 1976-77 and of European subsidies in 1979-81 which show that the injury to the domestic steel industry and its workers caused by unfairly traded products exceeded $7 billion for these five years alone.

o It doesn't give the complete story of how foreign producers first overbuilt their steel industries and ever since have sought to resist capacity reductions.

o And it says nothing about the data developed by independent Wall Street analyst Peter Marcus. These data show that total U.S. costs per net ton shipped are competitive against major foreign producers selling in the U.S. market, even with the current misalignment in exchange rates and that, as of the third quarter 1983, at actual operating rates, the allegedly uncompetitive American steel industry had higher labor productivity rates than both Japan and the major West European countries (to be exact, 6.5 hours per net ton shipped in the U.S., compared to 7.3 and 11.4 for Japan and West Germany, respectively).

Mr. Chairman, I realize that labor productivity rates, self-help efforts by the U.S. industry and investment capital shortfall statistics may not seem to relate directly to the concerns of this Committee. However, I believe they are relevant, and therefore ask that the recent written testimony of AISI Chairman Donald Trautlein before the Senate Finance Committee's Trade Subcommittee also be inserted into the record.

This document explains in great detail why domestic steel producers are now supporting comprehensive quotas and that, contrary to the perception of some, the industry is competitive in its own market but for unfair trade practices. Partial solutions to unfair trade practices simply have not done the job. The industry has filed hundreds of unfair trade petitions, and the steel trade problem is today worse than ever. Because of the need for a comprehensive solution, Bethlehem and the United Steelworkers filed the "escape clause" Section 201 petition, and domestic member companies of the AISI support the steel quota bill. After having lost more than $6 billion over the last two years, we can no longer afford to wait any longer for action to prevent further disruption of the U.S. market.

There is one issue that is constantly raised, Mr. Chairman, in regard to legislated quotas which I would like to address: the possibility of retaliation by our so-called "trading partners". I believe the retaliation issue is a red herring.

First, there are many examples of the U.S. and other countries applying quotas in the postwar years, and yet there are no examples of resulting immediate and massive retaliation. In those very few cases where retaliation has occurred, it has come only after months of talking and as a measured response to perceived injury. Second, if we look at those who might theoretically retaliate, I think you'll find that virtually all the parties are already covered in such a manner that retaliation would be pointless. The EC, for example, is already under the restraint of the U.S.-EC Arrangements. The Japanese are operating their own voluntary restraints. Mexico and South Africa, two of the "other countries" category of import sources, have now voluntarily announced restraint programs which have resulted in the withdrawal of unfair trade petitions. Many other country sources not yet covered, are or will be subject to antidumping or antisubsidy actions by the U.S. Government. I would submit that, since legislated quotas wouldn't depart in any really major way from recent or potential limitations that will affect these sources, there would be little or no disposition to retaliate.

Mr. Chairman, I believe the foreign relations aspect of the problem is simply this: the U.S. ability to lead and defend the Free World requires a strong and healthy steel industry. The U.S. is no longer in the position of economic supremecy it was in during the 1950's and 1960's. Accordingly, we simply cannot afford to let other nations get a "free ride" in this market - especially when their steel industries have become social welfare agencies operating at the expense of both their taxpayers and ours. As it is, the U.S. is the only major steel industry in the developed world that cannot supply its own steel needs during periods of moderately strong economic activity. We believe the Senate Foreign Relations Committee has an interest in seeing that this foreign dependence does not increase further. And since the national security aspect of the steel trade problem is directly relevant to the foreign policy concerns of this Committee, I request that the statement on this subject of General Alton Slay before the Senate Finance Committee's Trade Subcommittee be inserted into the record.

Finally, we understand that steel industry conditions in other countries affect U.S. foreign policy interests. When steel riots in Belgium bring down the government and when the IMF calls on Brazil to increase its exports as a condition of continued aid, these are legitimate U.S. foreign policy concerns. All we are saying is that the American steel industry should not be liquidated to serve these other interests and be forced out of business by the foreign policy costs incurred in the U.S. national interest. What we need is immediate government action to redress in a definitive way the imbalance that threatens to capsize our industry. The Fair Trade in Steel Act provides that solution. We believe this legislation must be enacted because it will help to ensure the survival of the American steel industry, and that, Mr. Chairman, is in the long-term national and international interest of the United States.

WORLD STEEL PROFILES

INDUSTRY STRUCTURE, IMPORT BARRIERS, U.S. UNFAIR TRADE CASES

A document presented as part of the testimony of Robert B. Peabody, President, American Iron and Steel Institute, before the Senate Foreign Relations Committee at its hearing on the U.S. steel industry, Chicago, Illinois, July 6, 1984.

This is a first compilation by the American Iron and Steel Institute of selected basic data from various public sources on the steel industry of the world. The data are designed to show in summary form (i) the structure of production in each country - producing companies and their ownership, production, trade, financial data, etc.; (ii) trade barriers in effect in each country, where known from public sources; and (iii) for each foreign producer, a summary of unfair trade cases filed by U.S. producers.

The data in this first compilation are incomplete and no claim is made that every individual item of information is correct, only that the public data sources cited so indicate. Nevertheless, we believe the overall picture presented is one of widespread government control of steel in nearly every foreign country, tight protection by those governments of their home markets, and mercantilist, predatory export policies aimed principally at the U.S. market because of its size and openness.

It is intended that the compilation in future will be expanded and continuously updated and corrected.

THE STEEL TRADE ISSUE

Domestic steel producers have long made the case that they wish to compete vigorously in the U.S. and world steel markets in an open international trade system. But they assert they cannot do so because the steel industries of other nations - most of them owned, managed and subsidized by their governments - are free to export their products at any price, regardless of fair value, and to do so from protected home markets.

U.S. producers claim the damage this has done to their capital base, their rate of capital formation and their ability to compete with imported steel, is now so great that a temporary period of steel import limitation has become absolutely necessary. Our government must finally recognize, domestic producers say, that America's trade policies need to recognize once and for all that U.S. private-enterprise, market-based producers cannot compete, in our own or any other market, with government-managed and government-funded foreign producers, because those producers are operating under essentially non-market procedures which distort conditions of competition and the priniciples of free trade and comparative advantage.

Many in the U.S. have been sceptical of this thesis. They have assumed that foreign steel producers are not really the monolithic, state enterprise type of operation portrayed by the domestic industry; that conditions of competition in the U.S. and other markets are pretty much equal; and that where they aren't our trade laws can correct the imbalances.

But the information presented in the attached documentation totally contradicts the views and assumptions the sceptics have previously held. The data show beyond any doubt that the American steel industry has a case that deserves an answer. And considering the importance of economic and trade factors in America's policies and relationships around the globe, the issues involved are not just issues of trade policy but are issues of American foreign policy also.

The picture of the rest of the world's steel industry that emerges from the data presented here has four overall characteristics:

- most of the rest of the world's steel industry is government-owned, government-managed or government-funded (or all three);
- most of the rest of the world's steel industry operates in closed domestic markets;
- most of the rest of the world's steel industry has been making heavy losses year after year, but these losses are made good by government funds enabling the producers to stay in business and keep on exporting; and
- the U.S. market remains the sump into which the rest of the world's surplus production is drained - with chronic injury to the domestic industry as a result.

The domestic industry's case basically rests on these four factors and deserves a careful, dispassionate judgement. The data presented have been gathered by the American Iron and Steel Institute from press and other public sources. They prove, we believe, and beyond any reasonable doubt, that this nation's trade policy requires radical readjustment, at least as it affects steel, that a bipartisan effort must now be made to accomplish this, and that the remedies, including temporary quantitative limitations on imports, must be rapid and comprehensive.

Table of Countries Included

Argentina

Australia

Belgium/Luxembourg

Brazil

Denmark

EEC

France

Greece

Italy

Japan

Mexico

Netherlands

South Africa

South Korea

Spain

Taiwan

United Kingdom

West Germany

ARGENTINA

Production 1982 = 2,913,000 metric tons
1983 (Preliminary) = 2,936,000 metric tons

Capacity (raw steel) 1983 = 4,880,000 metric tons

Domestic Market = 2,585,000 (est.) metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- The Argentinian government owns and/or controls 100% of integrated steel production in Argentina.

Somisa - Sociedad Mixta Siderurgia Argentina
Annual raw steel capacity 2.5 million metric tons.
Government ownership 99.974%.
Government expansion program will increase raw steel capacity to 4 million metric tons per year.

Sidinsa - Siderurgica Integrada Saic (established 1975)
Annual raw steel capacity will be 3.8 million metric tons when mill is completed.
Government ownership reported as a majority.

Acindar SA
Raw steel capacity approximately 2 million metric tons per year.
Expansion program: additional 600,000 metric tons of DR per year and continuous casting machine 450,000 metric tons per year-completion date 1986.
Government ownership_____.

Propulsora Siderurgica Saic
Annual capacity rolled steel 700,000 metric tons.
Government ownership_____.

- Total funding from government/quasi-government sources from 19___ to 19___ = ____________

Barriers to Imports

Government import licenses are required for all flat rolled products.

Profitability

Somisa registered losses in each year from 1977/78 to 1982/83. Losses incurred during this period totalled over 52 trillion pesos or approximately $300 million. (174,845 pesos/$).

U.S. Imports From Argentina (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	38	0.22%	0.03%
1980	18	0.12%	0.02%
1981	61	0.31%	0.06%
1982	167	1.00%	0.22%
1983	282	1.65%	0.34%

Unfair Trade Cases:

1. AD case filed 2/10/84 on cold rolled sheet.

   Petitioners estimate dumping margin of more than 80%. Petitioners reported Argentine steel producers export their excess production at prices substantially below those charged in their domestic market. This long standing practice has been candidly acknowledged by the Argentine steelmakers in their annual reports. One steel producer-Somisa-in its 1976-77 annual report supplied data on prices showing a price discrimination/dumping margin of 18%. However, because home market prices for Somisa's cold rolled sheet have been historically below cost of production, the dumping margins noted above were calculated based on the difference between Somisa's real costs of production and actual export prices of products shipped to the U.S.

2. AD case filed 11/23/83 on wire rod.

   Petitioners estimate dumping margins of $648/ton, or 306%.

   DOC preliminary determination was affirmative, estimating LTFV margin of 176.1%.

3. CVD case filed 11/10/83 on cold rolled sheet.

   Petitioners alleged that Argentine producers receive the following benefits: government equity infusions; preferential loans and guarantees; special tax and import tariff incentives; subsidized inputs (wages and material); excessive remission of taxes upon export; income tax exemptions based upon export performance; preferential export financing; higher exchange rates for exporters through use of multiple exchange rates; and assistance through a special government trade promotion program.

   Commerce's final determination estimates subsidy margins ranging from 2.34% to 6.42%. Following programs were found to confer subsidies: post-financing of exports; government equity infusions; loans and loan guarantees; capital tax exemption for Somisa; and import duty exemptions.

Source Documents for Above:

- IISI - Steel Statistical Yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
- Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

- Import licenses are required for all flat rolled products and special steels. Tariff levels for steel imports are from 35% to 50% of cif prices. Argentine importers state that import licenses are difficult to obtain, and further that they are often granted in accordance with the interests of Somisa, the state-owned steel producer. (Metal Bulletin, September 25, 1981)

AUSTRALIA

Production 1982 = 6,371,000 metric tons
1983 (Preliminary) = 5,605,000 metric tons

Capacity (raw steel) 1983 = 9,020,000 metric tons

Domestic Market = 5,834,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

Broken Hill Proprietary Company LTD
6.8 million metric tons annual raw steel capacity.
Government ownership-none.

- Total funding from government/quasi-government sources from 19___ to 19___ = ___________

Barriers to Imports

"Tariff quotas" (tariffs of 150% levied on any quantity of imports exceeding a base level) were introduced in August 1982, renewed in February 1983, and expired on December 1983. Some quantitative restraints are still in force for imports from LDC countries.

Profitability

BHP	Millions of U.S. Dollars (loss)			
	1979	1980	1981	1982
	36	(30)	(45)	(163)

U.S. Imports From Australia (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	111	0.63%	0.10%
1980	111	0.72%	0.12%
1981	117	0.59%	0.11%
1982	124	0.74%	0.16%
1983	185	1.08%	0.22%

Unfair Trade Cases:

1. AD and CVD case filed 2/10/84 on galvanized sheet.

AD: Petitioners estimate dumping margin of 62%. The sole producer of galvanized sheet in Australia is a subsidiary of BHP. The combination of monopoly position in the Australian market and the fact that (1) quotas were applied to imports into Australia from 1978-1980 and (2) subsequent tariff quota system on these products has allowed the BHP subsidiary to practice price discrimination on its exports of galvanized sheet. This price discrimination resulted in the above dumping margins on export shipments to the U.S. market.

CVD: Petitioners estimate subsidy margin of 10%. Petitioners allege that Australian producers receive the following benefits which constitute subsidies: export expansion grants; preferential loans; preferential taxation schemes; grants provided under the Steel Industry Plan; and assistance from state governments under the Victoria Decentralization Program (which includes refund of land taxes, refund of payroll taxes, reimbursement for the cost of transporting plant and machinery, grants for job creation, reduction of rates from the State railroad, uniform tariffs for electricity, and long-term loans at concessional rates). Petitioners also allege that the Australian government provides subsidies by limiting steel imports, thereby artificially raising domestic steel prices.

Commerce's preliminary determination was negative.

Source Documents for Above:

- IISI - Steel Statistical yearbook 1983
- AISI annual statistical reports
- *Federal Register*, ITC reports
- Company petitions
- *Iron and Steel Works of the World* (8th edition)
- *World Steel Dynamics* (capacity figures only)

Supplementary Press Reports:

- In 1981, in response to the Australian joint government-industry dumping evaluation committee investigation into S. Korean steel dumping, S. Korea "voluntarily" raised the prices on cold rolled sheet. (*American Metal Market*, March 11, 1982)
- The Australian government announced tariff quotas on 8 steel products for one year, July 1982 to June 1983. Current duties will be assessed by product on imports based on the level of imports which obtained from July 1981 - June 1982. If imports exceed this level on a given product, a surtax equal to 150% of the original tariff will be imposed. (Australian steel duties range from 5-25%). (*Japan Metal Bulletin*, September 2, 1982)
- The managing director of BHP's steel division has stated that BHP's investment program may take 12-15 years rather than the 10 years originally planned. He also said that "the investment program would only go ahead if the company was guaranteed an 85% share of the

Australian steel market and received more tax help." The pretax loss for the division was A $242 million during the first nine months. (Metal Bulletin, May 10, 1983)

- The Australian government has developed a 5 year protection and development plan for the Australian steel industry. In addition to the aid package, state governments in Australia have agreed to restrain increases in state charges affecting the industry. The plan's objective is to reduce imports to 20 percent of the market. (London Financial Times, August 12, 1983)
- The Australian government has introduced a package of import protection measures. A $71.6 million a year in "bounties" will be paid to purchasers of some Australian steel products. Also, domestic producers are "guaranteed" 80% of the domestic market for five years, beginning January 1, 1984. A BHP spokesman said that, under a new trigger mechanism, BHP is not strictly guaranteed 80% of the domestic market, but the government will have the power to impose quotas or other anti-import measures if import penetration exceeds 20% for any of about 80 product categories. (Metal Bulletin, August 16, 1983)
- The Australian Prime Minister stated that his government regarded steel as a vital industry and as such should be viewed as an exception to Australia's general [free trade policies]. As a result, the Australian government will pay $US64 million each year beginning 1983-84 for five years provided that the industry(BHP) invests $US 705 million over the next four years. The government payments will be made to secondary processors of BHP products which have been determined to be vulnerable to import competition.(Journal of Commerce, January 16, 1984)

BELGIUM/LUXEMBOURG

Production 1982 = 13,404,000 metric tons
1983 (Preliminary) = 13,450,000 metric tons

Capacity (raw steel) 1983 = 23,220,000 metric tons

Domestic Market = 5,883,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

Belgium

The Belgium government owns and/or controls 78% of integrated production in Belgium.

- Usines Gustave Boel SA (UGB)
  Annual raw steel capacity 2.016 million metric tons
  Government ownership _____

- Carlam - SA Caroloregienne de Laminage (carbon and specialty steels)
  Annual rolled steel capacity 2.6 million metric tons
  Government ownership - 100%

- Forges de Clabecq SA
  Annual raw steel capacity 1.75 million metric tons
  Government ownership - 22%

- SA Cockerill Sambre
  Annual raw steel capacity 9.15 million metric tons
  Government ownership - 100%

- Sidmar - Maritienne Staalnijverheid NV (Siderurgie Maritime SA)
  Annual raw steel capacity 3.2 million metric tons
  Government ownership - 21.97%

- Valfil, Ste Cooperative
  Annual finished steel capacity 1.15 million metric tons
  Government ownership - 85%

Luxembourg

- Arbed SA
  Raw steel production 3.5 million metric tons in 1982.
  Government ownership _____

o Total funding from government/quasi-government sources from 19___ to 19___ = __________

Barriers to Imports

See EEC page.

Profitability

Belgium

	1979	1980	1981	1982	1983
	Millions of U.S. Dollars (loss)				
Cockerill-Sambre[1/]	(156)[2/]	(395)	(521)		

1/ Company formed in 1981 by the merger of Cockerill with Hainaut-Sambre. Results for 1980 and 1981 are parent only.

2/ Cockerill results only

Luxembourg

	1979	1980	1981	1982	1983
	Millions of U.S. Dollars (loss)				
Arbed	(8)	(50)	(83)	(91)	

U.S. Imports from Belgium/Luxembourg (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	956	5.46%	0.83%
1980	870	5.61%	0.91%
1981	1,109	5.57%	1.05%
1982	929	5.58%	1.22%
1983	615	3.60%	0.74%

Unfair Trade Cases:

A. Belgium

1. AD case filed 9/29/83 on certain flat-rolled products.

   Petitioners allege dumping margins of 33-69% for cut to length plate, and 43-74% for coiled plate.

   Petition was dismissed by Commerce Department.

2. AD and CVD cases filed 1/11/82 on various products.

   AD: Petitioners alleged LTFV margins ranging from 6.8-27.5%.

   Commerce's preliminary affirmative determination found LTFV margins ranging from 0.79-10.88%.

CVD: Petitioners alleged that the following programs bestow bounties or grants: capital grants; interest rebates; preferential loans and loan guarantees; special government purchases of convertible debentures; debt consolidation, extension, and conversion; tax incentives; commercial risk assistance; labor-related aids; and R&D advances and loans.

Commerce's final affirmative determination found subsidy margins ranging from 2.2 - 13.4%. The following programs were found to confer bounties or grants: capital grants; loan guarantees; exemptions from real property tax; exemptions from capital registration tax; loans to uncreditworthy companies; equity participation by the government of Belgium; assumption of financing costs; preferential loans; industrial investment loans from the European Coal and Steel Community (ECSC); reimbursement of worker training costs; readaptation and retraining assistance; and funds for loss coverage.

Petitions were withdrawn, pursuant to terms of U.S.-EC Arrangements.

B. Luxembourg

1. AD and CVD cases filed 1/11/82 on various products.

AD: Petitioners alleged LTFV margins ranging from 26.7-45.8%.

Commerce's preliminary determination was negative.

CVD: Petitioners alleged that the following programs bestow bounties or grants: preferential loans and loan guarantees; interest subsidies on loans; preferential export financing; capital grants; tax concessions; labor-related aid; R&D funding; and special government purchase of convertible debentures.

Commerce's final affirmative determination found subsidy margins ranging from 0.5-1.5%. The following programs were found to confer subsidies: capital grants; ECSC interest rebates; and anti-crisis division.

Petitions were withdrawn, pursuant to terms of U.S.-EC Arrangements.

Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- *Federal Register*, ITC reports
- Company petitions
- *Iron and Steel Works of the World* (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

Belgium

- A tentative agreement was reached between the Belgium government and banks on financial aid for Cockerill-Sambre. A tentative agreement would reschedule $711.7 million in loans coming due, and advance an additional $228.8 million in cash. (Wall Street Journal, January 1, 1982)
- The European Community has approved a package of state aid to the Belgian steel producer Sidmar. This aid package includes a 3 percent reduction in interest rates and loans granted to the firm, and state guarantees for other loans and an exemption from property taxes for 3 years. Total aid will be in excess of $200 million. (American Metal Market, February 12, 1982)
- Cockerill-Sambre, which lost $442 million in 1981 and $256 million in 1982, could cost Belgium's taxpayers even more money in 1983. There is serious concern that when all steel aid to European steel producers is scheduled to be eliminated at the end of 1985 that Cockerill-Sambre will be forced into bankruptcy immediately. The alternative would be for Cockerill-Sambre to eliminate much of its loss making steel capacity prior to the 1985 aid cut-off date. However, recent attempts to rationalize the industry have resulted in strikes and rioting across Belgium. (London Financial Times, March 9, 1982)
- The EEC Commission has approved $490 million of aid to Cockerill-Sambre for restructuring and modernization. (Metal Bulletin, March 23, 1982)
- A survival plan for Belgium state owned steel firm, Cockerill-Sambre which would bring the company out of the red by 1985 has been unveiled. This plan includes production cut-backs and major investments which require further government aid. In addition to the $475 million that the government has already pledged to the survival plan, an additional $450 million will be needed. A majority of the new aid will be in the form of an agreement by the government to transform massive debts into an increase in the firm's working capital. This new restructuring plan still has to be approved by the European Community Commission. (American Metal Market, June 3, 1982)
- The Belgian steel industry had a net loss in 1981 of $462 million, the equivalent of 18% of its turnover. Exports to the USA have increased, and represented 7.8% of Belgian steel output last year. (Metal Bulletin, June 15, 1982)
- Usines Emile Henricot has received a new injection of state aid. Following a state-backed capital increase of $5 million in May, the Walloon regional government is now to put up another $10.5 million, making the company 98% publicly owned. (Metal Bulletin, July 6, 1982)

- The state and Flemish steelmakers are jointly setting up two new holding companies. The second, with stainless producer ALZ and the SNI [State Investment Bank], will have $21-million. Other recipients [of state aid to the Flemish steel industry] include... special bar producer Laminoirs de Jamappes. (Metal Bulletin, July 13, 1982)

- The EEC has rejected a state aid plan for the Belgian specialty steelmaker Laminoirs de Jemappes, even though the requested aid plan of $21.3 million has largely been spent. This aid was used to help finance a modernization plan which increased hot-rolled capacity at the company. (Metal Bulletin, November 19, 1982)

- The government has turned over $152 million to Cockerill-Sambre and is converting short-term advances of $126 million into convertible bonds. Further funding of $257 million by the Common Market should help assure survival "for all of 1983". Losses will range between $85 million and $171 million, narrowed from this year's $225 million. (The Wall Street Journal, December 21, 1982)

- Belgium government owned steel producers have been promised $117 million in aid from the EEC. This aid will be used to help finance capacity reductions in the industry. (Metal Bulletin, July 22, 1983)

- Cockerill-Sambre has exhausted the $564 million of government aid provided in May 1980. Cockerill-Sambre's immediate financial need will be met by an additional $25.6 million from the state holding company Boelinvest. (Metal Bulletin, September 9, 1983)

- The Belgian Economy Minister predicted that the country's centre-Right coalition Government would fall if Parliament fails to pass a Bill soon to bail out the near-bankrupt (state-owned) steel company, Cockerill-Sambre. (London Financial Times, January 9, 1984)

- The European Commission has authorized the Belgian government to take over Cockerill-Sambre's accumulated debts, which total $957 million. (Financial Times, March 30, 1984)

- Cockerill-Sambre will receive $483.2 million of further state funds for new investment and operating losses, provided that the European Commission decides that the company will be financially viable by the end of 1985. (Financial Times, May 25, 1984)

- Cockerill-Sambre posted an operating loss of $17.4 million for the first quarter of 1984. This was an improvement over the 1st quarter loss in 1983. The company expects to break even by 1985. (Financial Times, May 30, 1984)

Luxembourg

- Arbed has requested EEC approval of a $500 million government investment program. A $166 million aid package from the Luxembourg government to Arbed for 1981 is still awaiting European Economic

Community Commission approval even though the money has already been spent by Arbed. (American Metal Market, April 29, 1982)

- The government will provide 25 percent of a $767.6 million investment program for Arbed during the 1983-87 period. (Metal Bulletin, October 1, 1982)

- The Luxembourg government is to increase its share in Arbed to just under 20 percent from a current 2 percent. The Luxembourg government will pay for the majority of $112 million in convertible subordinated loans over the period 1983-1987. (Metal Bulletin, August 23, 1983)

- The EEC Commission has authorized the Luxembourg government to supply $330 million in aid to Arbed S.A. (American Metal Market, February 27, 1984)

BRAZIL

Production 1982 = 12,995,000 metric tons
1983 (Preliminary) = 14,660,000 metric tons

Capacity (raw steel) 1983 = 19,030,000 metric tons

Domestic Market = 10,580,000 (est.) metric tons apparent consumption in 1982.

Domestic Companies - Government Ownersnip and Funding

o The Brazilian government owns and/or controls 77% of all integrated steel production in Brazil.

Usiminas - Usinas. Siderurgicas des Minos Gerais SA
Annual raw steel capacity 3.6 million metric tons.
Government ownership 100%.

Cia Siderurgica de Tubarao (CST)
Annual raw steel capacity 3.4 million metric tons with expansion program to increase to 6.5 million metric tons per year.
Government ownership 51%.

CSN - Cia Siderurgica Nacional (Grupo Siderbras)
Annual raw steel capacity 4.6 million metric tons.
Government ownership 63.89%.

Cosipa - Cia Siderurgica Paulista
Annual raw steel capacity 4.2 million tons.
Government ownership 95%.

Cia Siderurgica Belgo - Mineira
Annual raw steel capacity 917,000 metric tons.
Government ownership ______.

Acominas - Aco Minas Gerais SA (under construction)
Annual raw steel capacity 2.0 million metric tons
Government ownersnip 100%.

Mannesman SA
Annual raw steel capacity 750,000 metric tons
Government ownership______.

Acesita - Cia Acos Especiais Itabira
Annual raw steel capacity 600,000 metric tons.
Government ownership______.

o Total funding from government/quasi-government sources from 19___ to 19___ = ____________

Barriers to Imports

The importation of steel products is not allowed if the product in question is produced in Brazil. Local content requirement for steel is 80-90%.

Profitability

Millions U.S. Dollars (loss)

	1979	1980
CSN	(87.7)	10.9
Usiminas	(98.9)	9.4
Cosipa	(53.1)	(11.9)
Acestia	7.3	(42.7)

U.S. Imports from Brazil (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	432	2.47%	0.38%
1980	458	2.96%	0.48%
1981	548	2.75%	0.52%
1982	605	3.63%	0.79%
1983	1,257	7.36%	1.51%

Unfair Trade Cases:

1. AD Case filed 3/21/84 on certain welded pipes.

   Petitioners estimate LTFV margins ranging from 34% to 58%.

   Affirmative ITC preliminary injury finding.

2. AD and CVD case filed 11/10/83 on plate and sheet products.

   AD: Petitioner alleged less than fair value (LTFV) margins to be between 80 and 174.4% for HR sheet, and between 67.4 and 152.8% for CR sheet.

   DOC's preliminary determination was affirmative for HR sheet and negative for CR sheet. LTFV margins on HR sheet range from 1.44% to 8.07%.

   CVD: Petitioner alleged that Brazilian producers receive the following benefits which constitute subsidies: provision of equity capital; government funds to cover operating losses; funding for expansion through Industrialized Products Tax (IPI) rebates; fiscal incentives, donations and grants; preferential financing from Banco Nacional de Desenvolvimento Economico (BNDE); government assumption of BNDE loans; government loan guarantees; assistance in repaying foreign loans; IPI credit premium; export profit exemption from corporate income tax; local tax incentives; accelerated depreciation for equipment; preferential export financing; incentives for trading companies; input subsidies on charcoal, iron ore, and slab; reduction of labor compensation paid by state firms; tariff reductions for imported steelmaking equipment; preferential supplier credits; rail rate subsidies based on payment in steel; construction of ports; special tax deductions for SIDERBRAS; and selective devaluation.

DOC's final determination was affirmative, with margins ranging from 17.49% to 62.18%. DOC determined that the following programs confer subsidies: government provision of equity capital; government guarantees on long-term loans; short-term export financing; IPI export credit premium; funding for expansion through IPI tax rebates; and exemption of IPI tax and customs duties on imported equipment. Final ITC injury determination was affirmative.

3. AD case filed 1/31/83 on plate and sheet products.

   Commerce's final LTFV margins range from 50.55% to 100.04%.

   Affirmative ITC final injury determination. AD orders were issued.

4. AD case filed 9/30/82 on wire rod.

   Commerce's final LTFV margins range from 49.61% to 76.49%.

   Final injury determination was affirmative, and AD orders were issued.

5. CVD case filed 7/30/82 on tool steels.

   Petitioners alleged that Brazilian producers receive the following benefits which constitute subsidies: capital subsidies funded by IPI rebates; subsidized capital loans; excessive remission of the IPI; income tax exemption; exemption of capital equipment from import duties and the IPI; extension of the period for carrying tax losses forward; special amortization of pre-operational expenses; preferential working capital financing for exports; and reduced freight rates.

   The final subsidy margin, as calculated by DOC, was 18.77%. DOC determined the following programs confer subsidies: IPI export credit premium; preferential working capital financing for exports; income tax exemption for export earnings; long-term loans; IPI rebates for capital investment; Industrial Development Council program; and accelerated depreciation for capital goods manufactured in Brazil.

Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
- Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

o Under pressure from the U.S. Government, the government of Brazil agreed to phase out all export subsidies. This agreement developed from negotiations which were initiated as a result of the threat of a countervailing duty petition being filed by the U.S. ferroalloy industry. This petition would have alleged that export subsidies had aided Brazil's export of steel mill products to the U.S. (American Metal Market, January 26, 1979)

o Brazilian industrial group Votorantim has closed its Santo Amaro facility in protest of Brazilian government action against the company. The government suspended the company's access to official credit and banned exports of its products because the privately owned steel producers were found selling their products at prices 50-60 percent above officially controlled levels. (Metal Bulletin, February 15, 1980)

o In attempts to aid exports of nickel stainless steel and other iron and steel products, the Brazilian government formed a cartel... Acos Villares, Acos Finos, Piratina and Acesita all participated in the Accord and are receiving financial assistance for their exports. (American Metal Market, November 18, 1981)

o Siderbras has asked for a budgetary allotment in the order of about $10.5 billion for 1982, exactly double this year's budget. Such funds would be used to give continuity to Siderbras projects already underway. (American Metal Market, December 29, 1981

o Acesita revealed massive losses totalling $38.6 million last year - a 311% increase from 1980. Exports were up 24%. A substantial part of Acesita's debt arises from payments on its expansion project. The company's debts from the expansion accumulated to $408.7 million last year. (Metal Bulletin, April 2, 1982)

o There are plans to boost specialty steel capacity from 350,000 tons to one million tons per year. About a dozen or more new electric arc furnaces will be installed by the nation's mini-mills. (American Metal Market, May 27, 1982)

- "We will continue to export our steel, just as Brazil exports many products, to maintain appropriate levels of foreign exchange. The $25 billion projected price tag for the steel expansions some may have to be slowed from the initial target date of 1990." (American Metal Market, September 29, 1982)

- Usiminas would end the year with a "small loss" according to commercial director. The main reason was that prices, especially export prices were below costs. "If any Brazilian product is being exported at a profit, it is being subsidized," the director added. (Metal Bulletin, January 11, 1983)

- Brazil has devalued the cruzeiro by 23%. In addition, other measures were introduced "to protect strategic markets." One such measure taken to protect Brazil's iron ore market was a 20% export tax. (American Metal Market, March 10, 1983)

- Brazil's steel exports this year should be twice the 2.4 million tonnes exported in 1982 while output should rise by 12% to 14.5 million tonnes. -- first quarter losses were some 38 times greater than in the same period of 1982. (Metal Bulletin, September 6, 1983)

- The group of steel mills controlled by Siderbras (the state steel holding company) closed 1982 with net worth of $2.8 billion and total debt, domestic and international, of $15 billion. (Journal of Commerce, October 12, 1983)

- Brazil's Tubarao steel complex was started up this week. This means that Brazil's export drive will be faced "with the herculean challenge of finding markets for yet another 1.5 million metric tons of steel next year." In addition, expansion plans for 2 more state-owned mills are scheduled to be completed in 1985 and 1987. (Journal of Commerce, November 28, 1983)

- The foreign trade authority halted the issue of virtually all import permits until the end of the year. Import ceilings in 1984 for individual companies will be based on actual 1983 figures minus monthly quotas. (Financial Times, December 15, 1983)

DENMARK

Production 1982 = 560,000 metric tons
1983 (Preliminary) = 493,000 metric tons

Capacity (raw steel) 1983 = 850,000 metric tons

Domestic Market = 2,270,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- Det Danske Stalvalsevaerk A/S (DDS)
  Annual rolled steel capacity 870,000 metric tons
  Government ownership ________

o Total funding from government/quasi-government sources from 19___ to 19___ = ____________

Barriers to Imports

See EEC page.

Profitability

U.S. Imports from Denmark (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	15	0.09%	0.01%
1980	9	0.06%	0.01%
1981	23	0.12%	0.02%
1982	1	0.01%	.00%
1983	1	0.01%	.00%

Unfair Trade Cases:

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Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

- Denmark's only steelmaker is attempting to raise $100-150 million as part of a five year restructuring program. The Danish government is expected to contribute the majority of the money required. The Danish Steelmaker (DDS) lost in excess of $15 million in the previous two years. (Metal Bulletin, May 5, 1981)

EEC

Production 1982 = 111,286,000 metric tons [10 countries]
1983 (Preliminary) = 108,423,000 metric tons [8 countries]

Capacity (raw steel) 1983 = 186,170,000 metric tons [9 countries]

Domestic Market = 92,585,000 metric tons apparent consumption in 1982. [10 countries]

Domestic Companies - Government Ownership and Funding

See individual country pages.

o Total funding from government/quasi-government sources from 19___ to 19___ = __________

Barriers to Imports

Beginning in 1978, the EEC has negotiated yearly bilateral steel trading arrangements with many exporting countries. These arrangements specify the quantity and the price level allowed for steel imported from a particular country. It is estimated that 80% of the EEC's steel imports are covered under these arrangements. In 1983, the EEC had arrangements with fourteen countries: Japan, Spain, South Korea, Australia, Brazil, Austria, Finland, Norway, Sweden, Poland, Bulgaria, Rumania, Czechoslovakia, and Hungary. Steel imports from countries which do not negotiate bilateral arrangements are subject to the EEC's basic price system -- these prices are used as a benchmark for application of dumping regulations. These prices are also higher than those used in the bilateral trading arrangements. (Imports account for approximately 12% of the EEC market.)

Profitability

Millions of U.S. Dollars
(loss)

	1975-77 (average per year)	1978-80 (average per year)	1981-82 (average per year)
10 companies	(1,664)	(2,552)	(2,260)

U.S. Imports from EEC (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	5,405	30.85%	4.70%
1980	3,887	25.09%	4.08%
1981	6,482	32.58%	6.15%
1982	5,597	33.59%	7.33%
1983	4,114	24.10%	4.93%

Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

- The EEC published new regulations for the surveillance of steel imports. Steel imports will still be subject to automatic import licensing. The list of products subject to quantity and price monitoring has been expanded to include: universals, polished sheets, tin-free steel, aluminum-coated sheets, and certain electrical sheets. (Metal Bulletin, June 15, 1982)

- The EEC Commission estimates that excess EEC steel production capacity will reach approximately 58 million tons by 1985. This would mean that about 30% of EEC steelmaking capacity would be underworked by 1985. (Metal Bulletin, October 1, 1982)

- European steelmakers are increasing the pressure for improved protection against imports from non-EEC sources. "There is now widespread recognition within the EEC that action is required over imports to take account of the sharp drop in community demand and the big curbs in output on the part of EEC mills." (Metal Bulletin, October 29, 1982)

- The EEC Commission published new minimum prices for imported steel -- these prices affect imports from countries which do not have bilateral trading arrangements with the EEC. These "non-pact countries" have been blamed for a sharp increase in community imports this year. The minimum prices have been increased -- a response to "strident demands" by EEC producers for "greater protection from cheap imports." (Metal Bulletin, November 23, 1982)

- The European Economic Community, in an effort to tighten surveillance of steel imports, devised a plan to expedite the processing of complaints by member states against imports from about 15 countries covered by EEC controls. (America Metal Market, October 21, 1983)

- The European Economic Community has approved a new series of government aid programs. The new programs include: $5 million for British Steel Corp., $500,000 for the Belgian steelmaker Cockerill-Sambre, $14.8 million for the Belgian steelmaker Forges de Clabecq, $5.2 million for West Germany's Arbed Saarstahl, $13.3 million for West Germany's Krupp, and $183 million for the Dutch steelmaker Hoogovens. (American Metal Market, February 3, 1984)

- European Community Foreign Ministers reached agreement on new procedures which will speed up EEC reaction to trading problems with third countries. This "new trade policy instrument" will enable the EC Commission to open consultations within the GATT; however, any retaliatory action must be decided by the Council of Ministers. (Financial Times, April 11, 1984)

FRANCE

Production 1982 = 18,402,000 metric tons
1983 (Preliminary) = 17,614,000 metric tons

Capacity (raw steel) 1983 = 29,660,000 metric tons

Domestic Market = 17,243,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

o The French government owns and controls 100% of integrated steel production in France.

- Creusot - Loire SA (carbon, alloy and specialty steels)
  Annual raw steel capacity 400,000 metric tons.
  Government owned

- Sacilor - Acieries et Laminoirs de Lorraine
  Annual raw steel capacity 4.2 million metric tons
  Government owned

- Solmer - St. Lorraine et Meridionale de Laminage Continu
  Annual raw steel capacity 3.5 million metric tons
  Government owned

- Usinor - Union Siderurgique du Nord et de l'Est de la France
  Raw steel production 8.8 million metric tons in 1982
  Government owned

- Vallourec SA
  Annual raw steel capacity ______
  Government owned

o Total funding from government/quasi-government sources from 19___ to 19___ = ____________

Barriers to Imports

See EEC page.

Profitability

	Millions U.S. Dollars (loss)				
	1979	1980	1981	1982	1983[1]
Sacilor	(172)	(288)	(321)	(285)	(1,180)
Usinor	(231)	(255)	(537)	(439)	(625.7)
Vallourec[2]	(358.5)			20.3	(46.9)

1/ London Financial Times, 5/21/84
2/ Data from Metal Bulletin, 6/5/84

U.S. Imports from France (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	1,341	7.65%	1.17%
1980	967	6.24%	1.02%
1981	1,289	6.48%	1.22%
1982	977	5.86%	1.28%
1983	914	5.35%	1.10%

Unfair Trade Cases:

1. AD case filed 5/10/82 on stainless sheet and strip.

   Petitioners alleged dumping margins of 5-39% on CR sheet, 1-42% on CR strip, and 13-18% on HR sheet.

   Commerce's final affirmative determination found LTFV margins ranging from 2.9-14.6%. AD orders were issued.

2. CVD case filed 5/7/82 on welded pipe and tube.

   Petitioners alleged that the following programs constitute bounties or grants: preferential loans and loan guarantees; 1978 Rescue Plan; regional development incentives; incentives to supplier industries; preferential export credits; and export insurance.

   Commerce's preliminary determination was negative.

   Petition was withdrawn, pursuant to terms of U.S.-EC Arrangements.

3. AD and CVD cases filed 1/11/82 on various products.

   AD: Petitioners alleged LTFV margins ranging from 16.9-45.8%.

   Commerce's preliminary affirmative determination found LTFV margins ranging from 1.3-27.7%.

   CVD: Petitioners alleged that the following programs bestow bounties or grants: preferential loans and loan guarantees; 1978 Rescue Plan; grants and preferential loans through the Short-term Industrial Adaptation Fund; regional development incentives; labor-related aid; research and development funding; incentives to supplier industries; preferential export credits; and export insurance.

   Commerce's final affirmative determinations found subsidy margins ranging from 3.7-21.4%. The following programs were found to confer subsidies: preferential financing including equity infusions; certain labor-related aid; assistance for plant operating expenses; and research and development.

Petitions were withdrawn, pursuant to terms of U.S.-EC Arrangements.

Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
- Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

- "The French government financed that takeover [Usinor's acquisition of Creusot-Loire in March 1981] to the tune of $76.3-million. The [Sacilor-Ugine Aciers] merger agreement... has yet to be approved bylthe government, which is now expected to inject more than $85-million into the program. Ugine Aciers lost $32.2-million in 1980..." (American Metal Market, January 22, 1982)

- The French Cabinet approval of $1.5 billion in aid to nationalized industry includes $656.6 million in capital increase to the three major nationalized French steel makers. (American Metal Market, May 18, 1982)

- The French Cabinet has adopted a plan to modernize the French steel industry which would cost $2.48 billion between 1982-1986. These investments will increase annual production capacity to 24 million metric tons per year from the present level of 20 million tons per year. (American Metal Market, June 10, 1982)

- The French Cabinet announced a $4.3 billion aid plan for the country's recently nationalized steel industry during the period 1982-1986. This aid would be used to modernize the steel industry and also to cover losses which during 1981 were $968 million. A substantial portion of this aid will be allocated to upgrade the specialty steel sector. (American Metal Market, June 11, 1982)

- It is estimated that around $116-million will be needed by Sacilor to modernize production at Hagondange and bring production of specialty steel bars and wire rod to around 300,000 tons a year. (American Metal Market, August 2, 1982)

- The French government set up a permanent advisory commission to determine "whether abnormal imports are of a nature to cause an injury or a threat of injury to the domestic economy." Evidence submitted to the Commission will be kept confidential while decisions of the Commission (which must be made within 2-4 months) will be made public. (Journal of Commerce, August 6, 1982)

- "Sacilor has reported a 20.2 percent increase in first-half losses compared with last year's $136-million loss in the first half. (American Metal Market, November 10, 1982)
- Usinor, like Sacilor is scheduled to invest $1.16-billion over the next four years, including some $110 million into the specialty steel mills near Dunkirk. (American Metal Market, November 19, 1982)
- Usinor is now expected to record 1983 losses of more than $410 million--more than double the $192 million originally forecast. The Usinor President is reported to have asked the French government for an extra $208 million in aid for 1983. (American Metal Market, November 23, 1982)
- The French government is to inject $74.6 million into Lorraine to create jobs for some of the thousand steelworkers being laid off in the region. (British Steel Corporation Daily News, December 6, 1982)
- The French Cabinet released $900 million for state steel subsidies this week. This money will be used to cover losses and for capital expenditure programs. (Metal Bulletin, February 11, 1983)
- The French government has granted the nationalized steel industry $942 million in investment funding for 1983. This aid will come from the national budget, from subordinate bonds, special issues of participatory shares and by the sale of nationalized industry bonds held by some of the companies. (American Metal Market, February 15, 1983)
- Thus far in 1983, the French government has earmarked $468 million in direct aid to Sacilor and $388 million in direct aid to Usinor. (American Metal Market, May 27, 1983)
- An association of independent French wire producers has been formed with the objective of defending their interests against alleged threats from wire producers owned by the major government owned French steelmakers Usinor and Sacilor. The independent wire producers claimed that the two nationalized firms received state aid which wiped out their operating losses which resulted from severe price cuts. These prices are estimated to be as much as 25-30 percent under costs of production. (Metal Bulletin, August 9, 1983)
- French Research and Industry Minister Laurent Fabius has ruled out the idea of a Usinor-Sacilor merger. These two companies posted an aggregate loss of $850 million in 1982. Mr. Fabius stated that the steel sector would "undoubtedly" not meet the government's goal of putting nationalized firms back into the black by 1985. (American Metal Market, October 14, 1983)

- The French government made the provision of additional financial assistance to the country's steel industry dependent on a return to profitability. The two state-owned groups, Usinor and Sacilor, both expected their losses to continue from an expected combined total this year of between $1.0 billion and $1.2 billion. (London Financial Times, November 24, 1983)

- Sacilor and Usinor, France's two nationalized steel companies, have requested $1.28 billion in government aid to finance their operations in 1984. This aid would be in addition to the over $4 billion of aid scheduled for 1982 through 1986. Sacilor and Usinor each reported 1983 losses of $582 million, compared with $430 million in losses by Sacilor and $582 million losses by Usinor during 1982. (American Metal Market, January 18, 1984)

- The French government has approved a plan to restructure the steel, shipbuilding and coal industries. French taxpayers will contribute $590 million to $710 million over the next few years to the plan. This money will be provided in addition to the scheduled annual contributions by the government to these nationalized industries. (Wall Street Journal, February 9, 1984)

- The French government decided to grant the two state-owned steelmaking companies $696 million in aid for 1984. This figure was lower than the reported $1.3 billion that was requested by Usinor and Sacilor, and also lower than the $791 million granted by the government in 1983. The two companies lost a total of $1.3 billion in 1983. (American Metal Market, March 8, 1984)

- Sacilor has been allocated an additional $63.2 million above the $821 million authorized thus far for industrial investments. A government spokesman noted that "sizeable, excess capacities exist" in the French steel industry; he also estimated that French production is 20-30% more costly than among foreign competitors. (American Metal Market, March 30, 1984)

- President Mitterand noted that $9.6 billion had been spent on the steel sector since 1966. He said that the government will spend between $3.4 and $3.8 billion to make the industry profitable by 1987. (American Metal Market, April 6, 1984)

- The French government has set up a new agency to help raise funds in the financial markets for the two ailing steel groups Usinor and Sacilor. The new body called Fonds d' Intervention Siderurgique will borrow money in the private sector with a state guarantee. The money will then be loaned to the two steel companies to help finance their investment plans through 1985. The companies in turn will issue bonds which they will repay at subsidized interest rates below 4.6 percent.

GREECE

Production 1982 = 910,000 metric tons

Capacity (raw steel) 1983 = 2,550,000 metric tons

Domestic Market = 1,473,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- Halgvourgiki, Inc.
  Annual rolled steel capacity 2.3 million metric tons
  Government ownership _______
- Hellenic Steel Co.
  Annual rolled steel capacity 1.1 million metric tons
  Government ownership _______ (majority ownership - Japanese interests)

o Total funding from government/quasi-government sources from 19__ to 19__ = __________

Barriers to Imports

See EEC page.

Profitability

U.S. Imports from Greece (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	57	0.33%	0.05%
1980	48	0.31%	0.05%
1981	92	0.46%	0.09%
1982	103	0.62%	0.13%
1983	68	0.40%	0.08%

Unfair Trade Cases:

Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

ITALY

Production 1982 = 24,010,000 metric tons
1983 (Preliminary) = 21,674,000 metric tons

Capacity (raw steel) 1983 = 33,070,000 metric tons

Domestic Market = 20,409,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

o The Italian government owns and controls 100% of integrated steel production in Italy.

- Dalmine SpA
  Total steel pipe and tube production 1981 - 1.029 million metric tons.
  Government ownership 100%

- Acciaierie e Ferriere Lombarde Falck SpA
  Annual raw steel capacity 1.4 million metric tons
  Government ownership ________

- Nuova Italsider SpA
  Annual raw steel capacity 16.95 million metric tons
  Government ownership 100%

- Acciaierie di Piombino SpA
  Annual raw steel capacity ________
  Government ownership 100%

- Nuova Sias Sta Italiana Acciai Speciali pA (specialty steel producer)
  Annual raw steel capacity 850,000 metric tons
  Government ownership 100%

o Total funding from government/quasi-government sources from 19___ to 19___ = ____________

Barriers to Imports

See EEC page.

Profitability

	Millions U.S. Dollars (loss)				
	1979	1980	1981	1982	1983[2/]
Italsider	(321)	(804)	N/A		
Nuova Italsider[1/]				(761)	(748.4)

1/ 100% owned by Italsider. Company was formed late in 1981 as a restructuring of Italsider to handle production of flat plate.

2/ London Financial Times, 5/21/84

U.S. Imports from Italy (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	292	1.67%	0.25%
1980	174	1.12%	0.18%
1981	768	3.86%	0.73%
1982	644	3.86%	0.84%
1983	395	2.31%	0.47%

Unfair Trade Cases:

1. CVD case filed 5/7/82 on welded pipe and tube.

   Petitioners alleged subsidy margin of 13% (large diameter) and 21% (small diameter). The following programs were alleged to bestow bounties or grants: preferential loans and loan guarantees; interest subsidies; capital grants; local and federal tax exemptions; recapitalizations; debt conversion and equity infusions; R&D funding; labor-related aid; and transportation subsidies.

   ITC preliminary determination was negative.

2. AD and CVD cases filed 1/11/82 on various products.

   AD: Petitioners alleged LTFV margins ranging from 14.9-55.1%.

   Commerce's preliminary affirmative determination found LTFV margins ranging from 2.07-40.78%.

   CVD: Petitioners alleged that producers in Italy receive the following benefits that constitute subsidies: preferential loans and loan guarantees; interest subsidies; capital grants; local and federal tax exemptions; recapitalizations; debt forgiveness; debt conversion and equity infusions; research and development funding; labor-related aid; utility subsidies; and other general and regional incentives.

   Commerce's final affirmative determination found subsidy margins ranging from 17.8-26.1%. The following programs were found to confer subsidies: recapitalizations and a conversion of debt to equity; preferential loans; capital grants; social security payment exemption; preferential transportation rates; European Communities (EC) labor assistance; and European Coal and Steel Community (ECSC) interest rebates.

   Petitions were withdrawn, pursuant to terms of U.S.-EC Arrangements.

Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
  Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

o Italsider, the operating arm of the steel company, Finsider, lost nearly $1 billion in 1980.

o The Italian government recently said it will contribute $41.6-million to electric furnace steelmakers to cover their higher energy costs through the second half of the year. The government also said it would help meet the interest costs on new bonds [$1.6-billion] to be issued for restructuring the state-owned steel industry. (American Metal Market, September 10, 1981)

o The EEC has approved an $8 million capital increase to the state steel maker Finsider as the first stage of a $5 billion refinancing plan for the company. (Metal Bulletin, January 8, 1982)

o Both Teksid, which lost $51m in 1980 and Finsider have long felt the need to shore up production in special steels, a sector where the highest profits are to be made. Finsider reportedly has guaranteed $140 to $280-million in financing for the new venture. (Financial Times, March 29, 1982)

o A 66 percent increase in exports to Europe and the United States of tubular and specialty steel was the only positive note that emerged at the annual. Falck SpA stockholders' meeting. Falck reported an industrial loss of $33-million in 1981. (American Metal Market, May 6, 1982)

o Finsider lost more than $1.68 billion during 1981. Finsider has obtained $800 million from the Italian government in 1981. $800 million is planned for 1982, $1.04 billion is expected for 1983, and $640 million is planned for 1984. Most of this money will be used to cover losses. (American Metal Market, May 28, 1982)

o The merger between Italy's state owned steel producer, Finsider, and Teksid has been approved. The Italian government will provide $401 million to pay for the acquisition. (Journal of Commerce, June 28, 1982)

- Local strikes have resulted from the first substantial layoffs in the Italian steel industry since the European crisis began in 1974 even though workers affected by the closure will receive about 80 percent of their wages under the state subsidized layoff program. (London Financial Times, October 5, 1982)

- Italsider and specialty steel producers Piombino and Acciaierie di Terni are watching with apprehension the fight with the EEC, which is reluctant to approve eitner Finsider's restructuring costs of $4.2-billion or the whole steel plan, which would reshape the private industry at an additional cost of $714-million. (American Metal Market, November 10, 1982)

- The state owned steel producer, Finsider, will receive $4.6 billion in state aid during the 1981-85 period. The state steel producer has lost a total of $2.2 billion in 1981 and 1982. (Metal Bulletin, April 15, 1983)

- A restructuring plan for the Italian pipe and tube industry will cost the government $40 million. (Metal Bulletin, May 6, 1983)

- The Italian private sector steelmakers will be granted $934 million in closure aid. (Metal Bulletin, August 2, 1983)

- Private sector Italian steel producers have been given $338 million to help ease the cost of plant closures and cutbacks in the current year. An additional $63.5 million remains to be distributed. The state sector has been granted $803 million in state aid this year. The Chairman of Finsider has declared that the company needs additional cash from the government of $3.65 billion. (Metal Bulletin, September 2, 1983)

- A plan to restructure Italy's publicly held steel sector was approved by the parent organization. The plan must now be approved by the government. It calls for recapitalization funds of $2 billion in 1984 and $1.4 billion in 1985. In addition, there is a request for an investment of $1.42 billion to be used for increasing worker efficiency and production in the plants. (American Metal Market, November 9, 1983)

- Finsider, the holding group running Italy's state-controlled steel companies, needs an immediate recapitalization to overcome a severe deficit suffered in 1983. The group said it would be unable to pay January salaries to several thousand workers, or pay suppliers, if funds were not available. (London Financial Times, December 23, 1983)

JAPAN

Production 1982 = 99,548,000 metric tons
1983 (Preliminary) = 97,164,000 metric tons

Capacity (raw steel) 1983 = 157,820,000 metric tons

Domestic Market = 63,733,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- Aichi Steel Works, Ltd. (Aichi Seiko)
  Annual raw capacity - 1.26 million metric tons - (specialty steel products)
  Government ownership - none

- Hitachi Metals, Ltd. (Hitachi Kinzoku)
  Specialty steel producer
  Government ownership - none

- Kawasaki Steel Corporation (Kawasaki Seitetsu)
  Annual raw steel capacity 20.26 million metric tons
  Government ownership - none

- Kobe Steel, Ltd. (Kobe Seikosho)
  Annual raw steel capacity approximately 10 million metric tons
  Government ownership - none

- Nippon Steel Corporation (Shin Nippon Seitetsu)
  Raw steel production 27.7 million metric tons FY 1983
  Government ownership - none

- Nisshin Steel Company, Ltd.
  Annual hot rolled steel capacity 4.28 million metric tons
  Government ownership - none

- NKK - Nippon Kokan K.K.
  Annual raw steel capacity 21.03 million metric tons
  Government ownership - none

- Sanyo Special Steel Company, Ltd. (Sanyo Tokiesno Seiko)
  Annual semi-finished steel capacity 840 thousand metric tons (specialty steel producer)
  Government ownership - none

- Sumitomo Metal Industries, Ltd. (Sumitomo Kinzoku Kogyo)
  Annual raw steel capacity 21.68 million metric tons
  Government ownership - none

- Tokyo Steel Manufacturing Company, Ltd. (Tokyo Seitetsu)
  Annual raw steel capacity 2.89 million metric tons
  Government ownership - none

Barriers to Imports

In December 1983, a Japan Iron and Steel Importers' Institute was set up "in an effort to maintain orderly imports of steel products" (Japan Metal Bulletin, January 19, 1984).

Profitability

Millions U.S. Dollars[1]
(loss)

	Kawasaki	Kobe	Nippon Kokan	Nippon Steel	Sumitomo
1979	200	103	101	423	156
Profit or Loss	14	12	6	11	11
Per ton (in $s)					
1980	220	124	172	336	220
Profit or Loss	19	15	11	16	16
Per Ton (in $s)					
1981	30	55	124	226	148
Profit or Loss	10	7	9	12	12
Per Ton (in $s)					
1982	78	50	112	138	124
Profit or Loss	7	7	8	10	10
Per Ton (in $s)					
1983	3	(25)	(47)	13	(50)
Profit or Loss	N/A	N/A	N/A	N/A	N/A
Per Ton (in $s)					

1/ FY ending 3/31
2/ Data from London Financial Times 6/14/84; 235 yen = $1.

U.S. Imports from Japan (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	6,336	36.17%	5.51%
1980	6,005	38.75%	6.30%
1981	6,220	31.26%	5.90%
1982	5,185	31.12%	6.79%
1983	4,237	24.82%	5.08%

Unfair Trade Cases:

1. Section 301 case filed 12/16/82.

   USTR rejected petition.

2. AD cases filed 1/20/82 on seamless pipe and tube.

   Petitioners alleged dumping margins ranging from 12.6-67%.

   Commerce's final affirmative determination found LTFV margins ranging from 2.83-22.95%. AD orders were issued.

3. AD case filed 10/6/81 on stainless clad plate.

   Petitioners alleged dumping margin of 14%.

   Commerce's final affirmative determination found LTFV margin of 14%. AD orders were issued.

Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
- Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

- The nation witnessed last week the somber spectacle of the five major steelmakers releasing their semi-annual financial reports (April-September 1983). This is the first time in some 20 years that all the 5 steelmakers posted a loss in their semi-annual business year. (Japan Metal Bulletin, November 15, 1983)

- The Japan Iron and Steel Importers' Institute (set up in December 1983) has decided that imports of plate and hot-rolled sheet in coil for the January-March quarter should be reduced. As a result, member firms will take 246,000 tons of plate instead of 416,000 tons, and approximately 250,000 tons of sheet in coil instead of the original 380,000 tons. (Japan Metal Bulletin, January 19, 1984)

- Japanese scrap importers are afraid that the possible imposition of scrap export regulations in Europe may substantially reduce their supply of imported scrap. Japan and the European Coal and Steel Community have periodic meetings, and this issue will be a topic of discussion at the next such meeting. (Japan Metal Bulletin, February 2, 1984)

- The Japan Iron and Steel Import Association "has been regulating rapid increases of imports from distant countries such as Romania and Bulgaria. New regulating work is underway for the July-September quarter setting the imports from distant countries at a total of 100,000 tons of plate and hot rolled sheet in coil. This is because the Association wants to limit the total imports of those items to 250,000 tons per month including the imports from Korea and Taiwan." (Japan Metal Bulletin, February 16, 1984)

- At the request of the big six integrated steelmakers, MITI is studying options for stiffening antidumping regulations. Steel imports into Japan are taking about 2.5 million tons per year out of the total Japanese market of 50-60 million tons per year. (Metal Bulletin, March 27, 1984)

MEXICO

Production 1982 = 7,056,000 metric tons
1983 (Preliminary) = 6,968,000 metric tons

Capacity (raw steel) 1983 = 11,710,000 metric tons

Domestic Market = 8,575,000 (est.) metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

o The Mexican government owns and/or controls 100% of integrated steel production in Mexico.

Ahmsa - Altos Hornos de Mexico SA
Annual raw steel capacity 3.0 million metric tons.
Expansion program to increase to 4.25 million metric tons per year.
Government ownership ______.

Hylsa SA
Annual raw steel capacity 1.83 million metric tons.
Government ownership 100% (Grupo Industrial alfa).

Fundidora Monterrey SA
Annual iron making capacity 1.4 million metric tons.
Government ownership ______.

Sicartsa - Siderurgica Lazaro Carlenas - La Truchas SA
Annual raw steel capacity 1.25 million metric tons.
Government ownership in excess of 50%.

o Total funding from government/quasi-government sources from 19___ to 19___ = __________

Barriers to Imports

Mexico's development plan for the steel industry includes measures to "sizeably reduce all steel and iron imports." Most imports require licenses, which are issued by the government.

Profitability

	Millions of U.S. Dollars (loss)			
	1979	1980	1981	1982
Ahmsa				
Hysla SA				
Fundidora				
Sicartsa				

U.S. Imports from Mexico (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	160	0.91%	0.14%
1980	67	0.43%	0.07%
1981	41	0.21%	0.04%
1982	113	0.68%	0.15%
1983	651	3.81%	0.78%

Unfair Trade Cases:

1. CVD case filed 3/13/84 on bars and shapes.

   Petitioners allege that Mexican producers receive the following benefits which constitute subsidies: fund for the promotion of exportation of Mexican manufactured products (FOMEX); industrial equipment fund providing credit for the production of exports (FONEI); Mexican foreign trade institute; tax rebates for exports through tax rebate certificates (CEDIs); import duty reduction and exemption; preferential federal tax credits; state tax incentives and provision of land on favorable terms; investment and development incentives for exports; preferential prices for natural gas, oil, electricity; iron ore and coal at preferential terms; article 94 loans; dual exchange rates; provision of equity and other benefits by virtue of government ownership and control; wage controls; subsidized rail transportation; and plant security.

2. AD case filed 11/23/83 on wire rod.

   Petitioners estimate the dumping margin to be 25%.

   DOC's preliminary determination was negative.

3. CVD case filed 11/10/83 on structurals, plate and sheet products.

   Petitioners allege that Mexican producers receive the following benefits which constitute subsidies: provision of equity; special loans and loan guarantees; preferential tax credits through Certificados de Promocion Fiscal (CEPROFI); tax reductions and exemptions; preferential prices for natural gas, oil and electricity; iron ore and coal at preferential terms; wage controls; preferential financing for promotion of exports; import duty reduction; tax rebates for exports through tax rebate certificates; port facilities; and preferential state investment incentives.

   Commerce preliminarily estimates the subsidy margin to be 4.98%. Following programs were found to confer subsidies: fund for the promotion of exports of Mexican manufactured products (includes loans to producers and importers); loans from the government-owned national development bank; loans from the Fund for Industrial Development; preferential federal tax incentives; and accelerated depreciation allowances.

Petitioner withdrew petition on 4/18/84. (Mexican government began voluntary export restraint program.)

Source Documents for Above:

- IISI - Steel Statistical yearbook 1983
- AISI annual statistical reports
- *Federal Register*, ITC reports
- Company petitions
- *Iron and Steel Works of the World* (8th edition)
- *World Steel Dynamics* (capacity figures only)

Supplementary Press Reports:

- o Three rounds of government regulations have brought about 83% of all Mexican imports under government controls. These controls are in the form of additional tariffs and import licensing systems. Steel rods and strips are among the products affected by the last round of regulations, which are termed temporary. (*Journal of Commerce*, August 8, 1981)

- o According to the Mexican government's National Steel Plan, Mexican demand for steel will more than double by 1990, reaching 26 million metric tons. Mexico intends to meet this increased demand by quadrupling state steel production over the next decade from 4 million metric tons to 18.5 million metric tons and raising total production from 7.1 million metric tons to 24 million metric tons.

  Domestic fuel prices are heavily subsidized--1,000 cubic feet of natural gas costs the domestic steel industry 28 cents. the U.S. pays 18 times more than that for Mexico's exported natural gas. (*Financial Times*, August 12, 1981)

- o The Mexican government has adopted a steel industry incentive program encompassing tax credits for capital investments and job creation. The incentives and subsidy programs include the following: (1) 20 percent fiscal credits for new investment or expansion of existing facilities, (2) 20 percent fiscal credits for new job creation, (3) 5-15 percent credits for use of Mexican made capital goods and (4) electricity or natural gas rates which will be as much as 30 percent lower than national prices.

  The Mexican government requires performance standards in order to qualify for the program. The performance standards require that the steel facility have 51 percent Mexican ownership.

The government run Banco Nacional de Obras Publicas SA loaned the private steel producer Alfa $680 million to stave off bankruptcy in 1981. (American Metal Market, February 10, 1982)

- The Mexican government placed a ban on imports of all non-essential commodities by refusing to approve import licenses for almost 825 items. The list of restricted items includes iron and steel products. It was not known at the time how long the restrictions would be in place. (Journal of Commerce, May 17, 1982)
- Now with such nations as Mexico and Brazil groaning under a total foreign debt of about $175 billion, most of this to banks in those industrialized nations, the "gloves are off" when it comes to pushing Latin American steel products overseas. ...The Director General of Mexico's Sidermex (state-owned steel producers) estimated here that his own firms' exports this year could triple to no less than 600,000 tons vs only 200,000 tons in 1982. (American Metal Market, August 31, 1983)
- Production in Mexico's state-owned steel industry will increase 15% over 1983 levels, to a record 4.3 million tons (Journal of Commerce, May 22, 1984)

NETHERLANDS

Production 1982 = 4,354,000 metric tons
1983 (Preliminary) = 4,478,000 metric tons

Capacity (raw steel) 1983 = 8,440,000 metric tons

Domestic Market = 3,703,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- Hoogovens Groep BV
  Annual raw steel capacity 7.15 million metric tons
  Government ownership 37%
- Nedstaal BV (owned by Thyssen AG)
  Annual finished steel capacity 667,000 metric tons

o Total funding from government/quasi-government sources from 19___ to 19___ = ____________

Barriers to Imports

See EEC page.

Profitability

Millions U.S. Dollars
(loss)

	1979	1980	1981	1982	1983[2]
Estel (50% owned by KHNS and 50% by Hoesch)	(91)	(230)	(284)		
Hoogovens[1] (KHNS)				(40)	(12.3)

[1] After 7 years of losses, the German-Dutch alliance was dissolved in 1982. 1982 results are those attributable only to Hoogovens.

[2] London Financial Times, 5/21/84

U.S. Imports from Netherlands (000 NT)

Year	Imports	%Total Imports	%Apparent Supply
1979	500	2.85%	0.43%
1980	340	2.19%	0.36%
1981	463	2.33%	0.44%
1982	375	2.25%	0.49%
1983	371	2.17%	0.44%

Unfair Trade Cases:

1. AD and CVD cases filed 1/11/82 on various products.

   AD: Petitioners alleged LTFV margins ranging from 9.8-43%.

   Commerce's preliminary determination was negative

   CVD: Petitioners alleged that the following programs bestow bounties or grants: preferential loans and loan guarantees; interest rebates; preferential export financing; capital grants; tax exemptions; labor-related aid; R&D funding; debt forgiveness; debt conversion; equity infusions; energy subsidies; and other general and regional incentives.

   Commerce's final determination was negative.

   Petitions were withdrawn, pursuant to terms of U.S.-EC Arrangements.

Source Documents for Above:

- International Iron and Steel Institute - steel statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
  Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

- o Hoogovens will need a further $247 million in state aid for the next four years to survive the split with its German partner, Hoesch. This will bring total aid to nearly $400 million since 1980. Hoogovens is presently 28.5 percent owned by the Dutch government and 8.5 percent owned by the city of Amsterdam. (London Financial Times, February 19, 1982)

- o Dutch steelmaker, Hoogovens, has requested $375 million in government aid to help with a $1.2 billion 1982-1985 restructuring program. Most of the money will be used for improving existing plants and creating new ones--particularly in the specialty steel industry. (American Metal Market, June 15, 1982)

- o The Netherlands government has approved the restructuring plans for steelmaker, Hoogovens, and will provide $385 million for the plan. (Metal Bulletin, October 1, 1982)

- The continued lack of demand for steel and steel products has taken a heavy toll on Hoogovens, the leading Dutch steelmaker. Yesterday it announced a loss of $31.1 million for the first six months of the year -- a 9 percent decline from the same period in 1982. (London Financial Times, August 11, 1983)

- Hoogovens' 10-year merger with Hoechst of West Germany ended in 1982. The Dutch company is now reorganizing, with the help of Fl 1.3 billion in state aid. (Financial Times, April 5, 1984)

SOUTH AFRICA

Production 1982 = 8,200,000 metric tons
1983 (Preliminary) = 7,066,000 metric tons

Capacity (raw steel) 1983 = 9,800,000 metric tons

Domestic Market = 5,840,000 (est.) metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- The South African government controls approximately 89% of the country's integrated steel production.

Iscor LTD
FY 1981/82 raw steel production 7.153 million metric tons
Government ownership 100%.

High veld Steel and Vanadium Corporation LTD
Output in 1982 - finished and shipped semis-642,000 metric tons.
Government ownership none.

- Total funding from government/quasi-government sources from 19___ to 19___ = __________

Barriers to Imports

With the exception of some stainless products, steel imports require an import permit in addition to the payment of duties.

Profitability

Millions of U.S. Dollars
(loss) (FY ending 6/30)

	1979	1980	1981	1982	1983
ISCOR	(45)	89	64	(20)	(227.3)

U.S. Imports from Rep. S. Africa (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	485	2.77%	0.42%
1980	440	2.84%	0.46%
1981	371	1.86%	0.35%
1982	530	3.18%	0.69%
1983	557	3.26%	0.67%

Unfair Trade Cases:

1. AD case filed 2/10/84 on structurals, plate and sheet products.

   Petitioners estimate dumping margins of 62 to 76%. Petitioners reported that according to ISCOR's annual reports it has long been the practice of South African steel producers to export their excess production at prices substantially below prices charged in their domestic market. This marketing tactic is viable for South African producers because prices are protected in the South African market. Even though the dumping margins resulting from price discrimination were significant, the margins noted above were the difference between ISCOR's costs of production and the prices of the products exported to the U.S.

2. CVD case filed 10/6/82 on carbon pipes and tubes.

   Commerce's final subsidy margins range from 21.64% to 26.77%. Following programs were determined to confer bounties or grants: export incentive program; iron/steel export promotion scheme; and general levy and import subsidy scheme.

3. CVD case filed 6/14/82 on steel wire rope.

   Petitioners alleged that South African producers receive the following benefits that constitute subsidies: reduced transportation rates; preferential pre- and post-shipment financing for exports; tax deductions and investment allowances for doing business in certain development areas and in the beneficiation of base minerals; rebates provided through the Iron and Steel Export Promotion Scheme; and tax deductions and rebates provided through the Export Incentive Program.

   Commerce's preliminary subsidy margin was 21.75%. Following programs were determined to confer bounties or grants: railroad rate differential; export incentive program; and iron/steel export promotion scheme.

Source Documents for Above:

- IISI - Steel Statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
- Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

o Iscor, South Africa's state owned steel corporation, has decided to modernize its Pretoria works at a cost of more than $400 million. A company spokesman stated that because some of the production units at Pretoria had been in operation since 1934, their maintenance cost was excessively high and productivity low. These and other inefficiencies had kept steel from being produced at competitive costs at this plant. (American Metal Market, February 4, 1982)

- Iscor, the state-owned South African iron and steel producer was badly affected by a combination of weak exports and domestic markets in the year to June. Lower sales volume and lower dollar prices for exports left turnover down. After current cost adjustments there was a trading loss before interest and tax. (London Financial Times, October 27, 1983)

- Proposals for new import controls for all steel products have been published. They will be open to suggestions for 6 weeks, at which time they will be transmitted to the Board of Trade and Industry. They will then come into effect in about 4 or 5 months. The new proposals include tariffs of up to 20% on some products, as well as a system of trigger prices. (The trigger price system would be set up such that imports below trigger price would be hit with higher tariffs than would imports at or above the trigger price.) These proposals were put forward by the steel companies themselves, as requested by the government late last year. (Metal Bulletin, March 6, 1984)

SOUTH KOREA

Production 1982 = 11,758,000 metric tons
1983 (Preliminary) = 13,490,000 metric tons

Capacity (raw steel) 1983 = 12,400,000 metric tons

Domestic Market = 7,228,000 (est.) metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- The South Korean government owns and/or controls 100% of integrated steel production.

Dongkuk Steel Mill Co. LTD
Annual finished steel capacity 1.62 million metric tons.
Government ownership ______.

Inchon Iron and Steel Co. LTD
Annual raw steel capacity 1.230 million metric tons.
Government ownership ______.

Pohang Iron and Steel Co. LTD (POSCO)
Annual raw steel capacity 8.5 million metric tons.
Expansion program - 1985 increase to 9.5 million metric tons.
Eventual annual capacity is expected to reach 12.0 million metric tons.
Government ownership 92%.

- Total funding from government/quasi-government sources from 19___ to 19___ = __________

Barriers to Imports

All imports into Korea require licenses. In addition, the importation of steel products is restricted if the product in question is manufactured in South Korea.

Profitability

	Millions of U.S. Dollars		
	1979	Return on Assets	1980
Pohang Iron and and Steel	17.7	0.5%	

U.S. Imports from Rep. Korea (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	986	5.63%	0.86%
1980	1,040	6.71%	1.09%
1981	1,218	6.12%	1.16%
1982	1,062	6.37%	1.39%
1983	1,728	10.12%	2.07%

Unfair Trade Cases:

1. AD case filed 4/21/83 on welded pipes and tubes.

   Petitioners reported that according to an ITC report on the Korean pipe and tube industry, Korean exports to the U.S. market accounted for 47% of total Korean pipe and tube production in 1980 and 55% in 1981. Petitioners calculated dumping margins on the accused products by using cost of production analysis. This method resulted in the petitioners' allegation of dumping margins of 30% to 48%.

   DOC final affirmative determination, with LTFV margins ranging from 0.76% to 2.13%. ITC final affirmative injury determination (except negative determination on heavy-walled rectangular pipe and tube). CVD orders were issued.

2. AD case filed 10/31/83 on plate.

   Petitioner alleges LTFV margins of 0.3 to 63.9%.

   Commerce's preliminary determination was affirmative, estimating LTFV margin at 5.1%.

3. AD case filed 9/28/82 on steel wire rope.

   Petitioners alleged LTFV margins of 10.3 to 32.2%.

   Commerce's final determination was negative and the investigation was therefore terminated.

4. CVD case filed 5/7/82 on plate and sheet products.

   Petitioners alleged that South Korean producers receive the following benefits which constitute subsidies: preferential utility rates; labor- related aids; tax incentives; preferential loans and loan guarantees; government purchases of steel at inflated prices; tariff incentives; and input subsidies on hot-rolled carbon sheet.

   Commerce's final determinations were affirmative, with subsidy margins ranging from 1.36% to 1.88%. Following programs were determined to confer subsidies: preferential export financing; preferential tax incentives for exporters; special tax exemptions for government-owned firms; special tax incentives for steel producers; preferential utility rates and port charges for steel producers; tariff incentives; and foreign capital inducement law benefits. CVD orders were issued.

5. CVD case filed 5/7/82 on small diameter welded pipe and tube.

   Petitioner's allegations were the same as those in number 4 above.

   Commerce's final determination was affirmative, with subsidy margins ranging from 1.86% to 1.88%. The same programs as in #4 above were determined to confer subsidies. CVD orders were issued.

6. CVD case filed 1/19/82 on steel wire nails.

   Petitioners alleged that South Korean producers receive the following benefits which constitute subsidies: preferential financing; artificially high tariff rebates; preferential rates for utilities and services; and tax incentives and preferential rates for wire rod.

   After an affirmative preliminary determination (which estimated a subsidy margin of 3%), Commerce issued a negative final determination. The investigation was therefore terminated.

Source Documents for Above:

- IISI - Steel Statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
- Company petitions
- Iron and Steel Works of the World (8th edition)

Supplementary Press Reports:

- Posco, Korea's only integrated plant, has decided to increase its capacity from 8.5 million metric tons per year to 9.6 million by June of 1983. The company is waiting on government approval for a second steel complex which will double its output by the end of the decade. (American Metal Market, October 17, 1981)

- The South Korean government will spend $281 million for the expansion of continuous casting capacity at the government owned steel producer, Posco. (The Korean Herald, October 3, 1982)

- But while sales jumped profits plunged, largely as a result of Posco's (S. Korea's state-owned steel producer) losing its special developing company tax status with the Korean government. Profits were down 65% from 1981 levels. The company also reevaluated net assets in 1982 and the subsequent figures show 1982 net return on equity was in the neighborhood of 2 to 3 percent, not 6 to 7 percent as stated by executives during interviews in Seoul last month. (American Metal Market, March 4, 1983)

- South Korea has announced that higher "emergency" tariffs will be imposed on many items beginning in July. The government is seeking to assist "local manufacturers who cannot compete with, or are in a nascent production stage of" the items. (Journal of Commerce, June 12, 1984)

SPAIN

Production 1982 = 13,146,000 metric tons
1983 (Preliminary) = 12,735,000 metric tons

Capacity (raw steel) 1983 = 16,510,000 metric tons

Domestic Market = 8,425,000 (est.) metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- Approximately 77% of Spanish integrated steel production is government-owned and/or controlled.

AHM-Altos Hornos del Mediterraneo SA
Annual raw steel capacity 900,000 metric tons: expansion program to increase to 6.0 million metric tons.
Government ownership 100%.

AHV-Altos Hornos de Vizcaya SA
Annual raw steel capacity 1.46 million metric tons.
Government ownership 100%.

Babcock and Wilcox Espanola SA Tubular Products Division
Annual raw steel capacity 350,000 metric tons.
Government ownership 100%.

Ensidesa-Empresa Siderugica SA
Annual raw steel capacity 5.528 million metric tons.
Government ownership 95.08%.

Laminociones de Lesaca SA (LL)
Annual rolled steel capacity 900,000 metric tons.
Ownership 100%-AHV.

Perfil en Frio SA (Perfrisa)
Annual finished steel capacity 330,000 metric tons.
Government ownership 80%.

Tubos Reunidos SA
Finished product output-1981-approximately 348,000 metric tons.
Government ownership approximately 49%, 49% Tubos Forjados.

- Total funding from government/quasi-government sources from 19___ to 19___ = _________

Barriers to Imports

Profitability

	Millions of U.S. Dollars (loss)			
	1979	1980	1981	1982
AHV	(140.3)	(138.1)	(107.3)	(71.7)
Ensidesa	(84.3)	(197)	(217)	(190)
AHM	(105.6)	(98.4)	(90.6)	(71.2)

U.S. Imports from Spain (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	380	2.17%	0.33%
1980	462	2.98%	0.49%
1981	730	3.67%	0.69%
1982	547	3.28%	0.72%
1983	610	3.57%	0.73%

Unfair Trade Cases:

1. AD case filed 2/10/84 on structurals, plate and sheet products.

   Petitioners estimate dumping margins of 63 to 95%. Petitioners reported that Spain has a formal system of mandated prices for its home market. Prices are set by the Spanish government and are reviewed by major steel producers at periodic meetings. Export prices have historically been set at a fraction of domestic prices. While the price discrimination was sufficient to result in large AD margins, the above margins were arrived at as a result of a determination that even these mandated prices were below Spanish steelmakers' costs. Thus the above AD margins were determined by calculating the difference between the actual costs of production and the very low export prices for these products.

2. AD case filed 1/13/84 on stainless sheet and strip.

   Petitioners estimate LTFV margins at 7-221%.

   ITC preliminary injury determination was affirmative.

3. AD and CVD case filed 11/23/83 on wire rod.

   AD: Petitioners estimate LTFV margin of 39.6%.

   DOC's preliminary determination was affirmative, estimating LTFV margins ranging from 12.3% to 17.4%.

CVD: Petitioners allege that Spanish producers receive the following benefits which constitute subsidies: preferential loans; capital infusions for loss coverage; capital financing of wire rod mill; national steel industry program; warehouse construction loans; privileged circuit exporter credits; refinancing loan; annual finance investment plan; equity infusions; and benefits available to subsidiaries. Petitioners estimate subsidy margin of 15.52%.

Commerce's final affirmative determination calculates subsidy margins ranging from 16.03% to 29.94%. The following programs were found to confer bounties or grants: long-term noncommercial loans and loan guarantees; benefits from long-term noncommercial construction loans to related suppliers; short-term working capital loans under the privileged circuit exporter credits program; excessive rebates of indirect taxes on exports; government provision of equity capital; government interest-free loans; and government grants.

4. CVD case filed 2/17/82 on stainless products.

Petitioners alleged that Spanish producers receive the following benefits which consti- tute subsidies: excessive remission of indirect taxes; preferential loans and loan guarantees; preferential export financing programs; and capital grants.

Commerce's final determinations found subsidy margins from 2.09 to 15.43%. The programs determined to confer subsidies are as follows: short, medium, and long-term preferential loans; and government grants. CVD orders were issued on stainless wire rod.

Source Documents for Above:

- IISI - Steel Statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
- Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

- Spain's Instituto Nacional de Industria (government-owned holding company) is negotiating a loan to aid the steel industry. The loan of $400 million would be allocated between two government-controlled companies (Altos Hornos de Mediterraneo and Ensidesa) and one privately held company (Altos Hornos de Vizcaya). These three companies had combined losses of $315 million last year. (Wall Street Journal, October 9, 1981)

- The president of Ensidesa has called for state subsidization, saying that without recapitalization the industry will be doomed. He also stated that an improved financial structure would be needed to meet anticipated increased competition resulting from Spain's planned membership in the EEC in 1985. (Metal Bulletin, October 9, 1981)

- ACEROS de Llodio, one of Spain's leading special steel producers, has gone into temporary receivership in order to restructure its debts of $43.3-million. (Metal Bulletin, February 23, 1982)

- Steel industry quarters in Spain are awaiting what are seen as inevitable government moves to curb the growing number of steel companies declaring a suspension of payments and going into temporary receivership. At least three major private sector semi-integrated steelmakers could benefit from government intervention. (Metal Bulletin, March 5, 1982)

- The Spanish Commerce Ministry has announced the 1981-1985 restructuring program which includes government aid of $1.74 billion for the three largest Spanish steelmakers. Ensidesa, which has a production capacity of 4.8 million tons will receive $920 million. Ensidesa lost $200 million in 1981 even though it produced at full capacity. Ensidesa's president stated that the firm was planning to expand shipments to the U.S. to help maintain efficient levels of operation. The other two smaller Spanish producers, AHM and AHV, will receive $330 million and $494 million respectively under the program. (American Metal Market, June 11, 1982)

- The Spanish state controlled steel producer Ensidesa lost $188 million in 1981, and $328 million in 1980. The other state controlled steel producer AHM lost $90 million in 1981. (London Financial Times, July 2, 1982)

- The Spanish government has agreed to provide $150 million in aid to two private Basque steel producers. The aid package will permit a merger of these two companies, Cerrajera and Nervacerro. Additional money will be made available for modernization plans at the facilities. (London Financial Times, October 1, 1982)

- The steel industry has dominated headlines in Spain during the past year. The steel crisis has become a major national structural problem. The state-owned integrated steel plant of Altos Hornos del Mediterrano (AHM) which lost close to Pta 9bn in 1982 on Pta 26 bn turnover, will continue to lose colossal sums right through next year. (London Financial Times, December 9, 1983)

- Eight member companies of the National Institute of Industry account for almost all of the holding company's $905 million in losses in 1983. of these, steelmaker Ensidesa posted a loss of $170 million, and steelmaker Altos Hornos del Mediterraneo posted a $50 million loss. These two companies are eligible for special government aid since steel is classified as a "crisis industry". (Journal of Commerce, December 23, 1983)

- The state owned steelmaker, Altos Hornos del Mediterraneo, ordered the closure of a blast furnace at Sagunto. Workers at the plant refused to cooperate with the order. It is estimated that the shutdown would involve the loss of 155 jobs at the plant. (Journal of Commerce, February 23, 1984)

- Spain's restructuring plans appear to have been finalized. 70% of the required financing will come from the government, and 30% from supplier's credits. Ensidesa is to receive $633 million, AHM is to receive $136 million, and AHV is to receive $480 million.

- Foreign Minister Moran has proposed the establishment of minimum reference prices, below which steel cannot be imported.

1983 losses for the integrated sector totalled about $265 million. (American Metal Market, June 1, 1984)

TAIWAN

Production 1982 = 4,152,000 metric tons
1983 (Preliminary) = 6,550,000 metric tons

Capacity (raw steel) 1983 = 5,400,000 metric tons

Domestic Market = 4,020,000 (est.) metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- The Taiwanese government owns and/or controls 100% of Taiwan's integrated steel production.

China Steel Corporation
Annual raw steel capacity 3.25 million metric tons.
Government ownership 97.3%.

- Total funding from government/quasi-government sources from 19___ to 19___ = __________

Barriers to Imports

Government import licenses are required for all imports.

Profitability

Millions of U.S. Dollars

U.S. Imports from Taiwan (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	109	0.62%	0.09%
1980	86	0.56%	0.09%
1981	131	0.66%	0.12%
1982	118	0.71%	0.15%
1983	177	1.04%	0.21%

Unfair Trade Cases:

1. AD case filed 4/21/83 on certain welded pipes and tubes.

Taiwanese pipe and tube producers have become dependent on export sales in recent years - especially sales to the U.S. market. Petitioner estimated that the Taiwanese pipe and tube producers' dumping margins ranged from 16-50% based on the difference between home market prices and export prices to the U.S.

DOC's final affirmative determination calculates LTFV margins ranging from 9.7% to 43.7%. Affirmative ITC final injury determination. AD orders issued.

Source Documents for Above:

- IISI - Steel Statistical yearbook 1983
- AISI annual statistical reports
- *Federal Register*, ITC reports
- Company petitions
- *Iron and Steel Works of the World* (8th edition)
- *World Steel Dynamics* (capacity figures only)

Supplementary Press Reports:

- Taiwan's state-owned China Steel Corporation is near completion of an expansion project which will add capacity of 1.75 million metric tons per year. More than 50% of the current 1.5 million metric tons of production is exported--as compared with previous years, when as much as 80% of production was sold in the Taiwan market. (*Financial Times*, April 24, 1982)
- China Steel Corporation is planning a $1.4 billion expansion, boosting capacity 70% from current levels to 5.7 million metric tons. The expansion will begin in July of 1984 and will take about four years. The chairman of the company stated that the expansion is planned in order "to meet market demand". The company posted a loss of $5.4 million for the fiscal year ended 6/30/83. (*Wall Street Journal*, August 8, 1983)

UNITED KINGDOM

Production 1982 = 13,705,000 metric tons
1983 (Preliminary) = 14,987,000 metric tons

Capacity (raw steel) 1983 = 23,920,000 metric tons

Domestic Market = 14,197,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- The U.K. government owns and controls 100% of integrated steel production in the U.K.

Allied Steel and Wire, Ltd.
Annual finished steel capacity 2.0 million metric tons
Government ownership 50%

BSC - British Steel Corporation
Annual raw steel capacity __________
Government ownership 100%

- Total funding from government/quasi-government sources from 19___ to 19___ = __________

Barriers to Imports

See EEC page.

Profitability

	Millions of U.S. Dollars				
	1979	1980	1981	1982	1983[1]
BSC (FY ending 3/31)	(1,176)	(1,494)	(639)	(573)	(129.6)[2]

1/ *London Financial Times*, 5/21/84
2/ Estimate

U.S. Imports from U.K. (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	434	2.48%	0.38%
1980	237	1.53%	0.25%
1981	574	2.88%	0.54%
1982	486	2.92%	0.64%
1983	364	2.13%	0.44%

Unfair Trade Cases:

1. CVD case filed 10/7/82 on stainless sheet, strip, plate.

   Petitioners alleged that the following programs confer bounties or grants: government equity infusion; National Loans Fund loans and loan conversion; regional development grants; Iron and Steel Industry Training Board grants; preferential railroad transportation rates; and capital investment subsidies tied to stainless steel production.

   Commerce's final affirmative determination found subsidy margin of 19.31%. Following programs were found to confer subsidies: public dividend capital and new capital; National Loans Fund loans and loan conversions; regional development grants; and Iron and Steel Industry Training Board grants. ITC final was affirmative only for stainless plate. AD order was issued.

2. AD and CVD cases filed 1/11/82 on various products.

   AD: Petitioners alleged dumping margins ranging from 268-305%.

   Commerce's preliminary affirmative determination found LTFV margins ranging from 7.8-18.8%.

   CVD: Petitioners alleged that the following programs confer bounties or grants: preferential loans and loan guarantees; transportation subsidies; overdraft guarantees; debt forgiveness; debt conversion and equity infusions; capital grants; subsidization of inputs; direct grants in return for overvalued equity; concessional export financing; labor-related aid; research and development funding; and other general and regional incentives.

   Commerce's final affirmative determinations found subsidy margins of 20.3%. The following programs were found to confer subsidies: public dividend capital and new capital; National Loans Fund loans and loan conversions; industrial investment loans from the ECSC; loans from the European Investment Bank; regional development grants; interest relief grants; Iron and Steel Industry Training Board grants; Export Credit Guarantee Department loans; Industrial and Commercial Finance Corporation (ICFC) loans; and preferential rail rates.

   Petitions were withdrawn, pursuant to terms of U.S.-EC Arrangements.

Source Documents for Above:

- IISI - Steel Statistical yearbook 1983
- AISI annual statistical reports
- *Federal Register*, ITC reports
- Company petitions
- *Iron and Steel Works of the World* (8th edition)
- *World Steel Dynamics* (capacity figures only)

Supplementary Press Reports:

- British steel companies' losses for the 1980-81 year total $1.2 billion. Losses during the 1981-82 year are expected to be approximately $540 million.
- British government grants totaling $45 million are being made to help more than 13,600 steel workers who have lost their jobs. The money will go for early retirement, retraining and income support to both private sector steel employees as well as BSC workers. (British Steel Corporation Daily News, January 6, 1982)
- State owned British Steel Corporation is expected to seek a further $165 million in state funds during the 1982-83 fiscal year. The company explained that the additional funds were needed in anticipation of the decline in exports to the United States and the need to further reduce costs and improve the quality of its output. (Journal of Commerce, March 5, 1982)
- The European Commission announced an extra package of aid for the steel and shipbuilding industries of $52.9 million. This money will be made available to communities impacted by lay-offs and closures in these two industries. (London Financial Times, April 13, 1982)
- Ian MacGregor, Chairman of British Steel Corp., stated in 1980 when he accepted the British Steel job, that the corporation was technically bankrupt. Since then, the government has pumped in $1.3 billion in aid, and writen off $5.2 billion in capital and loans. (London Financial Times, June 14, 1982)
- The British government's financing limit for steel in 1982-83 will be $649.7 million compared to a $1.3 billion subsidy provided during the 1981-82 year. (American Metal Market, June 16, 1982)
- BSC has stated that it managed to stay will within the external financing limit, or subsidy, granted by the government last year of $1.3-billion. Its cash requirements for its own direct operations... were $1.06-billion although additional commitments totaling $124.6-million were needed for joint ventures with private sector steel producers. (American Metal Market, July 14, 1982)
- Great Britian's ailing private sector steel firms were urged to take advantage of government cash to help them with modernization and job cuts which would cover approximately one quarter of the restructuring or closure costs. This government fund totals $35.2 million. (BSC Daily News, August 2, 1982)
- The purpose of the British Steel-Johnson & Firth merger was "to create a formidable U.K. special steels company". Both companies had been losing money. BSC will contribute $70.9-million to the venture, and the government has indicated it will consider granting financial aid to the merger. (American Metal Market, August 8, 1982)

- Compared to the $1.9-billion provided in 1980-81, the government has announced it will provide $627.8-million this year. The latest government subsidy level, however, had to be revised upward by some $25.8-million." (American Metal Market, October 8, 1982)

- Specialty steel producers Barworth Flockton and Neepsend announced plans for rationalising their steelmaking and forging activities. The two companies plan to take advantage of the government's recently-increased $49-million private sector steel rationalisation fund. (Metal Bulletin, November 12, 1982)

- The British government, early in 1982, agreed to provide British Steel with a subsidy of $595 million. It was hoped that this amount would be sufficient to cover BSC losses and also the cost of plant closures. However, because the steelmaker has been losing approximately $11.4 million a week, additional government aid may be necessary. (American Metal Market, December 3, 1982)

- The British government has written off an additional $1.6 billion of British steel debts. (British Steel Daily News, December 7, 1982)

- "The government earlier this year agreed to provide BSC with a subsidy of just ($595-million). It was hoped that this amount would be sufficient to cover the BSC losses and also meet the costs of plant closures... However, the steelmaker has lately been suffering losses of about ($11.4-million) a week..." (American Metal Market, December 12, 1982)

- British Steel Corporation is to receive approximately $945 million in government subsidization for the fiscal year ending March 31, 1983. (British Steel Corporation Daily News, February 18, 1983)

- The British Steel Corporation is to receive an additional $379.5 million for the current fiscal year 1982-83. This brings total government support for the Corporation during fiscal 1982-83 to $945 million. (London Financial Times, February 18, 1983)

- The British government has provided BSC with financial aid of $503.75 million for 1983-84. Included in this total is $396.8 million for capital investments during the period. (American Metal Market, May 24, 1983)

- The Government's confidence about privatising the British Steel Corporation has seemed to wane in the past few months. As long as BSC continues to suffer huge losses -- $500 million last year pre-tax and $225 million the year before -- then the government will have to bail it out as well as provide capital for new investment. (London Financial Times, October 28, 1983)

- The European Commission approved payment of a $504 million subsidy to British Steel Corporation. This money will be use to help cover restructuring costs and operating losses. (American Metal Market, February 14, 1984)

- The European Coal and Steel Community has authorized payment of $23.33 million to laid-off steelworkers in Great Britain. The funds will be used to provide make-up pay, training allowances, and early pensions for the former workers. (American Metal Market, March 7, 1984)

WEST GERMANY

Production 1982 = 35,880,000 metric tons
1983 (Preliminary) = 35,727,000 metric tons

Capacity (raw steel) 1983 = 62,660,000 metric tons

Domestic Market = 26,847,000 metric tons apparent consumption in 1982.

Domestic Companies - Government Ownership and Funding

- The West German government owns 10% of West German steel production capacity.

Arbed Saarstahl GmbH
Annual raw steel capacity 3.72 million metric tons
Government ownership none (owned by Arbed SA, Luxembourg)

Stahlwerke Bochum AG (SWB)
Annual rolled steel capacity 1.15 million metric tons
Government ownership none

Hoesch Huttenwerke AG
Annual raw steel capacity 6.009 million metric tons
Government ownership none (owned by Hoesch Werke AG)

Hoesch Werke AG
Annual raw steel capacity ________
Government ownership none

Klockner - Werke AG
Annual rolled steel capacity 6.8 million metric tons
Government ownership none

Krupp Stahl AG (KS)
Annual raw steel capacity 5.4 million metric tons
Government ownership 25% (National Iranian Steel Co)

Mannesmannrohren - Werke AG (MRW)
Annual raw steel capacity 4.3 million metric tons
Government ownership none

Maxhutte - Eisenwerk - Gesellschaft Maximilianshutte
Annual finished steel capacity 2.098 million metric tons
Government ownership none

Stahlwerke Peine - Salzgitter (P&S)
Annual raw steel capacity 5.2 million metric tons
Government ownership 100%

Rasselstein AG
Annual rolled steel capacity 2.502 million metric tons
Government ownership none

Thyssen Edelstahlwerke AG (TEW)
Annual raw steel capacity ________
Government ownership none (specialty and alloy steel producer)

Thyssen Stahl AG
Raw steel production 9.6 million metric tons in 1982
Government ownership none

VDM - Vereinigte Deutsche Metallwerke AG
Annual raw steel capacity ________
Government ownership none (specialty steel producer)

- Total funding from government/quasi-government sources from 19___ to 19___ = ________

Barriers to Imports

See EEC page.

Profitability

Millions of U.S. Dollars (loss)

	1979	1980	1981	1982	1983[1]
Klockner-Werke FY ending 9/30 (steel only)	(17)	--	(38)	(19)	(88.8)
Krupp (steel only)	6	--	(54)	125	
Thyssen FY ending 9/30 (steel only)	73	59	19	21	(199.4)
Hoesch					10.9
Saltzgitter	(2.0)				
Mannesmann	79.8				

[1] *London Financial Times*, 5/21/84

U.S. Imports from West Germany (000 NT)

Year	Imports	% Total Imports	%Apparent Supply
1979	1,868	10.66%	1.62%
1980	1,289	8.32%	1.35%
1981	2,164	10.88%	2.05%
1982	2,080	12.48%	2.72%
1983	1,387	8.13%	1.66%

Unfair Trade Cases:

1. AD case filed 9/29/83 on certain flat-rolled products.

   Petitioners alleged dumping margins of 13-66% for cut to length plate, and 27-55% for coiled plate.

   Petition was dismissed by Commerce Department, but was later reinstituted on a regional basis (West Coast).

2. AD case filed 7/30/82 on tool steels.

   Petitioners allege that market prices were below West German production costs.

   Commerce's final affirmative determination found LTFV margins ranging from 0.93% to 18.41%. AD orders were issued.

3. CVD case filed 5/7/82 on welded pipe and tube.

   Petitioners alleged subsidy margin of 11%. The following programs were alleged to bestow bounties or grants: preferential loans and loan guarantees; coal and coke subsidies; capital grants; tax exemptions; labor-related aid; research and development funding; other general and regional incentives.

   Petitions were withdrawn, pursuant to terms of U.S.-EC Arrangements.

4. AD case filed 4/26/82 on stainless sheet and strip.

   Petitioners alleged LTFV margins of 12-42% on CR sheet, 1-86% on CR strip, and 30-50% on HR sheet.

   Commerce's final affirmative determination found LTFV margins ranging from 1.49% to 7.76%. AD orders were issued.

5. AD and CVD cases filed 1/11/82 on various products.

   AD: Petitioners alleged LTFV margins ranging from 4.5-52.4%.

   Commerce's preliminary affirmative determination found LTFV margins of up to 19.17%.

   CVD: Petitioners alleged that the following programs bestow bounties or grants: preferential loans and loan guarantees; coal and coke subsidies; transportation subsidies; debt forgiveness; debt conversion and equity infusions; capital grants; tax exemptions; labor-related aid; R&D funding; other general and regional incentives.

   Commerce's final affirmative determination found that the following programs bestow bounties or grants: Investment Premium Act; capital infusion (Peine-Salzgitter); ECSC loan guarantees; ECSC loans; ECSC interest rebates; labor assistance from ECSC rehabilitation aids; EIB loans; and ECSC R&D. The subsidy margin for Stahlwerke Rochling - Burbach was 1.1%; for all other companies it was de minimis.

Petitions were withdrawn, pursuant to terms of U.S.-EC Arrangements.

Source Documents for Above:

- IISI - Steel Statistical yearbook 1983
- AISI annual statistical reports
- Federal Register, ITC reports
- Company petitions
- Iron and Steel Works of the World (8th edition)
- World Steel Dynamics (capacity figures only)

Supplementary Press Reports:

o The European Commission has just announced that it will allocate $65 million in aid to steel workers who have lost their jobs. West Germany is to get the largest allocation: $15 million. (London Financial Times, January 6, 1982)

o Increased federal support was being considered only for the restructuring process under way in the Ruhr region. The support likely be channelled through the local government, without changing a previously budgeted federal appropriation of $128-million earmarked for steel in 1982. (American Metal Market, February 12, 1982)

o The federal government agreed to make available to Roechling-Burbach soft loans of $20.3-million and credit guarantees of $43.7-million provided the state government of Saarland comes up with matching funds. A similar aid plan is being evaluated for federal and regional aid to help set up Ruhrstahl. (American Metal Market, February 22, 1982)

o Krupp's losses in 1981 reached $156-million, with a $32-million in special steels." (Metal Bulletin, May 28, 1982)

o No figure was given for the Ruhrstahl aid but the cabinet said $52.7-million would be made available in the form of conditionally repayable loans to Stahlwerke Rochling-Burbach. (Metal Bulletin July 2, 1982)

o West German steelmakers have submitted applications for government aid based on investment plans totalling $5.17/6.1-billion Government sources indicate that state support for these plans will be more than $810-million. Almost all German steel companies submitted aid requests. (Metal Bulletin, July 6, 1982)

- The European Commission has approved $107.8 million in restructuring aid for Arbed-Saar Stahl, the West German steel subsidiary of the Luxembourg steelmaker, Arbed. (New York Times, July 28, 1982)

- The state owned German steelmaker, Peine-Salzgitter, is requesting approval for $311 million in state aid. The money will be spent on rationalization and modernization of the Salzgitter works. (Metal Bulletin, February 22, 1983)

- The West German steelmaker Arbed Saarstahl received government approval for an aid package of $32.6 million. In addition, Arbed's creditor banks gave the steelmaker concessions totaling $161 million. The government package is contingent on further efforts to reduce excess capacity and cut costs. The banks agreed to waive part of the interest payments due them on credits of DM 700 million, postpone repayment of the principal until 1988, and delay the remaining interest payments until the end of 1985. (American Metal Market, November 9, 1983)

- After weeks of uncertainty, the West German government finally agreed on Tuesday to release the DM86m required to rescue Arbed Saarstahl from impending bankruptcy. (Metal Bulletin, November 11, 1983)

- Arbed Saarstahl has received an estimated $1.27 billion in government aid since 1978. In November 1983 it received an additional $39 million to cover payments of debts by the company following its agreement to cut over 5,000 workers from its workforce of 17,000. (American Metal Market, December 21, 1983)

- The West German aid package for its steel industry totals $1.09 billion. Of this amount (according to steelmaker Thyssen's records), Hoesche Werke will receive $314.3 million, Kloeckner Werke will receive $194.8 million, Krupp Stahl will receive $206.8 million, Salzgitter will receive $105 million, and Thyssen will receive $272.3 million. (American Metal Market, February 10, 1984)

- The EEC has authorized state aid for restructuring of about $62.3 million for the German steel industry. The companies receiving aid are: Maximilianshutte, Eschwerken Bergwerksverin AG, Bohler AG, and Halberger Hutte. State aid for larger West German steelmakers will soon be announced. (American Metal Market, March 16, 1984)

- The EC Commission has approved a series of new state aids. Hoesch AG will receive $112 million as investment aid, $20 million for research and development, $59 million as operational aid,and $15 million as state guarantee. Peine Salzgitter will receive $19 million as investment aid, and $9 million for research and development. (American Metal Market, April 5, 1984)

- Dr. Ruprecht Vondran, Executive Secretary of the Association of German Iron and Steel Industry, has predicted that 1984 will be a better year than 1983, although steelmakers are far from being out of the crisis. He also stated that, as a result of the European production quota system, the German steel industry has "had to surrender much of its entrepreneurial freedom and is able to breathe only with the help of taxpayers money." (Journal of Commerce, April 9, 1984)

- The West German government is making up to $1.1 billion in aid available to steel companies to help cover the costs of laying off workers and modernizing plants. (Financial Times, June 5, 1984)

Statement of

Donald H. Trautlein

Chairman, Bethlehem Steel Corporation

and

Chairman, American Iron and Steel Institute

Mr. Chairman:

This hearing on the current state of the U.S. steel industry, and on steel trade issues is of paramount importance to the domestic steel industry. At stake is nothing less than our future as a major world industry, and our position as the principal supplier of steel to the American economy.

We are here today to urge enactment of S. 2380, the Fair Trade in Steel Act, which has wide support in the House, and the Senate is now beginning to consider. This bill is the only effective way to return some equity to the conduct of trade in steel, which has become a gross caricature of a functioning market ---- as millions of tons of steel routinely and flagrantly enter the U.S. at prices below their costs of production.

Mr. Chairman, we have been told by a succession of Administrations that the way to obtain fair trade in steel is to bring unfair trade cases against importers of dumped and subsidized steel products. We have filed literally hundreds of cases for almost a decade, and we continue to do so. But the result has been, at best, the temporary correction of an abuse from one source only to confront a similar pattern from another.

The steel industry is still in a state of crisis. In 1982-1983, the industry was severely injured by dumped and subsidized imports.

The American steel industry operated at 48% of capacity in 1982, and 55% in 1983, the lowest levels since the depression years of the 1930s. Domestic steel shipments amounted to 59.8 million tons in 1982 and 67.5 in 1983, the lowest levels since 1949. The combination of low levels of operations and destructively low import prices over the past two years have had disastrous consequences for the industry's profitability and cash flow. Pre-tax losses in steel operations were more than $8 billion in the years 1982 and 1983 (including losses associated with the closure of facilities). These heavy financial losses over the past two years have reduced investment to a point where the long-run competitiveness of the industry is being severely weakened.

Unemployment in the industry is still at a depression level -- 96,000 employees were on layoff or short work week at the end of 1983 -- equivalent to almost one-third of the steel workforce.

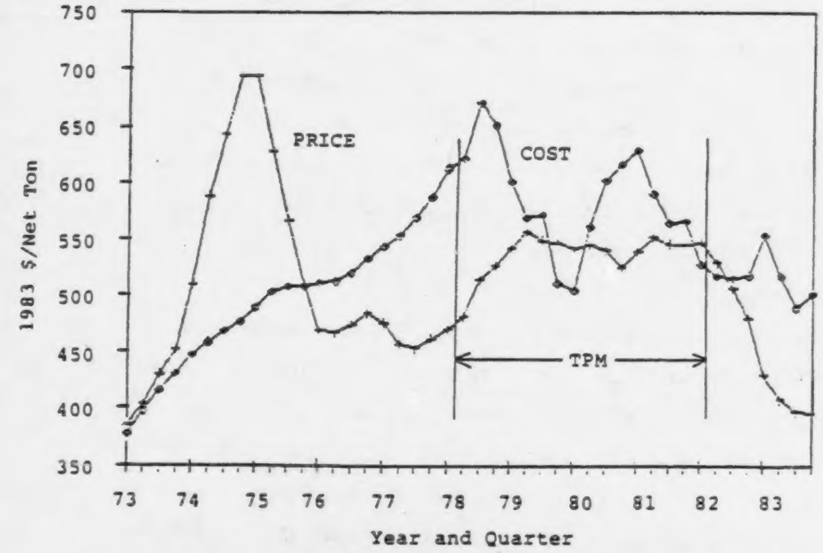
Massive government involvement in foreign steel industries has distorted the operation of the market mechanism in steel trade. Private producers in the U.S. cannot compete with inefficient, yet subsidized foreign producers, operating from protected home markets and selling at export prices significantly lower than their costs. This problem is especially severe in steel, where government subsidies have generated more than 200 million net tons of excess capacity in the Western world economy outside of the United States. Excessive government involvement and excess capacity now exists in many developing countries -- not just in the EC and Japan.

This foreign government involvement, the direct cause of increased steel imports, has cost the American industry dearly, Mr. Chairman. In a May 3, 1984 study submitted to the International Trade Commission, Data Resources, Inc. indicates that had the import share of the U.S. market remained at the level obtaining in 1964-1976 (i.e., a little under 13.4%), instead of the 18.2% actually experienced in 1977-1983, imports would have averaged 4.7 million tons less than they actually did, shipments would have been 4.7 million tons higher, domestic prices would have averaged $35 per ton more, and cash flow would have been $3.9 billion higher annually, measured in constant 1983 dollars.

Our industry has made maximum efforts to reduce costs but this has not provided sufficient cash flow for modernization. Our capital expenditures over the past two years have been running at a replacement rate of about 50 years for steel industry production facilities, when the rate should be well below 25 years.

Thus despite our best efforts, the steel industry's modernization will continue to fall below the level required until an effective trade policy for steel is put in place. That is worth doing, Mr. Chairman, because the American steel industry is cost competitive in its home market. Currently, the costs of production of the U.S. industry average $480 per net ton of steel shipped. In contrast, average landed costs in the U.S. market of Japanese producers (the most efficient major foreign producers, upon whose costs of production the TPM was based) are approximately $520 per net ton (source, WSD). Notwithstanding this, (and using Japan as an example) selling prices in our market are well below costs of production. This is displayed in the chart below and is also true for most of the foreign sources of imports entering our market.

GRAPH OF REAL IMPORT PRICES AND FULL JAPANESE COSTS
FOR CARBON STEEL
1973-1983



Source: Analysis of Injury to the Domestic Steel Industry Caused by Imports. Report to International Trade Commission of Marshall Bartlett Inc., May 3, 1984.

In spite of aging equipment and a lower percentage of continuous casting than in Japan and Europe, American steel producers are more efficient in the use of many inputs than are many of their foreign competitors. Although unit labor costs are unsatisfactory, when compared to those of Japanese and Korean producers, for example, and they must be improved, U.S. carbon steel labor productivity is higher than in these two countries. The strong raw-materials position of U.S.

producers, together with the basic strengths of the American economy (e.g., highly developed capital markets, access to advanced technology, and large home market), still provide American steelmakers with significant long-run advantages. Moreover, the U.S. potential for significant further cost reduction is higher than for the other major industries compared.

The present steel crisis is too large to fit into the category of cyclical fluctuation. The severity of this situation is causing sharp changes in the industry. Changes in government policy are urgently needed. An inadequate response will transform the present crisis into a much deeper, more permanent contraction than the level implied by the industry's actual competitive condition -- at great cost to the industry, its workers, and to the national economy.

The longer-term competitive prospects of the American steel industry depend upon our Government's response to the flood of subsidized and dumped imports entering the U.S. market. Government action must occur to reestablish the conditions under which private domestic producers can compete with semi-public or fully nationalized foreign competitors. The steel import problem is an example of the overriding problem facing U.S. trade policy; whether the United States can preserve the private character of one of its major industries in a world system in which intervention by foreign governments has become the norm.

PRESENT POSITION OF THE INDUSTRY

Structure and Concentration

The steel industry consists of 92 firms engaged in production of raw steel and finished steel products. In 1983, integrated producers accounted for 78.0% of raw steel production and non-integrated producers, 22.0%. U.S. mini-mills in 1983 had approximately 18.2 million net tons of capacity, and 12.7 million net tons of raw steel output, accounting for approximately 15% of U.S. production last year. In 1983, the top 3 steel companies accounted for 39.2% of total output and the top 8 firms accounted for 72.0%. Estimated capacity in January 1984 was 135.3 million net tons, down from 150.6 million net tons in January 1983, and 160 million net tons in 1977. The U.S. shutdown of capacity in the year 1983 was equivalent to the loss of an industry equal to the size of the Canadian or British steel industries.

Production and Shipments

Production in 1983 was 84,615,000 net tons, or 56.2 percent of capability. This compared with 74,577,000 tons, or 48.4 percent in 1982. The percentage of production coming from basic oxygen furnaces rose to 61.5 percent in 1983, compared with 60.7 percent in 1982; electric furnaces produced 31.5 percent last year, compared with 31.1 percent in 1982; and open-hearth furnace production declined to 7.0 percent, from 8.2 percent in 1982.

The percentage of raw steel produced by continuous casting was 32.1 percent in 1983, against 29.0 percent in 1982.

Shipments in 1983 totalled 67,584,000 net tons compared with 61,567,000 tons in 1982. This level of shipments, while a modest improvement over the 33 year low of 1982, was still at a depression level, in part due to the continued high level of imports, which took 20.5% of the U.S. market in 1983.

Employment

While employment levels in the American steel industry recovered slightly during 1983 from the bottom of the two-year recession, steel industry unemployment was still far higher than in the nation as a whole.

Average 1982 employment in the steel industry was 242,700 persons (including both hourly and salaried employees), compared with 289,400 in 1983. These figures compared with an average of 453,000 persons employed in 1975-79, indicating that employment in 1983 fell 46 percent below that base period.

Financial Condition of the Industry

The total cash flow of the steel companies has not been adequate to meet capital spending requirements. During the 1970s, capital expenditures exceeded internally generated funds by over $1.5 billion because of low profitability, and tax depreciation policies which did not cover inflation in replacement costs.

To compensate for the deficit of internally generated funds, steel companies increased borrowings. This has resulted in increased debt ratios. The high debt levels and lower profitability have resulted in reduced debt ratings which limit the industry's financial capacity for additional increases in debt and further reduces profitability, due to increased financial costs on new debt issues. The six largest steel companies reduced dividends over 70% during the past two years. These reductions, combined with low ratios of market price to book value and limited expectations for substantial improvements in industry profitability and cash flow, have restrained the industry from raising any significant additional equity capital at reasonable costs.

During 1979-1983, "Steel Segment"* uses of funds (net cash for long term investment in plant and equipment, and Steel Segment dividends) far exceeded net cash provided from operations. Even without Steel Segment dividends, net cash for long term investment in plant and equipment exceeded internally generated net cash flow from steel operations, by about $1.3 billion. These data affirm that the steel industry has not used cash flow from steel operations for non-steel investment purposes.

Net losses from "Steel Segment" operations totalled $5 billion for 1982 and 1983, through the third quarter. The fourth quarter 1983 plant shut-downs and operating losses caused total net losses to increase to more than $6 billion in 1982-83.

Capital expenditures for the Steel Segment during the period 1980 through September 1983 averaged only $2.3 billion per year, for 86% of the industry -- equivalent to $2.7 billion for the total industry. This is alarmingly below the level necessary to maintain and modernize existing plant and equipment, which we estimate to be about $5.5 billion annually, based upon an annual replacement rate of 4.4% of facilities.

As a result of inadequate generation of cash internally, long term debt for the Steel Segment, including that due within one year, rose from 43.9% of equity, at the end of 1979, to 80.9% of equity by the third quarter of 1983. From 1981 to 1983, shareholder equity in the "Steel Segment" of steel companies declined approximately $5 billion.

Due to its heavy losses, the steel industry had an Investment Tax Credit carryover of $1.2 billion in 1983. Moreover, the industry Net Operating Loss (NOL) carryover rose from $1.6 billion at the end of 1982 to $5 billion at the end of 1983.

*The financial data in this statement are preliminary and derived from a Price Waterhouse & Co. financial steel industry survey still underway. This survey will provide balance sheet, income statement, and cash flow statement for the Steel Segment as well as for total corporate operations in each participating company. The 33 participating companies accounted for approximately 86% of U.S. raw steel production in 1983.

These data affirm the deteriorating financial condition of domestic steel companies. Balance sheets of individual steel companies must be repaired quickly to avert further potential shut-downs or the financial collapse of some companies in the industry.

Industry Self Help Measures

As indicated in the industry's position paper issued in February 1983, significant operating improvements are under way in the steel industry. Average blast furnace output in the American steel industry has increased by over 50% since 1971.

Continuous casting capacity will double in the next five years; approximately 16 continuous casting machines (16 million tons total capacity) will be installed during 1982-84. Other significant improvements are being made in metallurgy, computerization, and electric-furnace operations, where the U.S. industry is the world leader. Major steel consuming manufacturers with world-wide steel consuming operations have recently asserted that the quality of American steel is second to none.

Non-union employment costs have been curtailed substantially. American steel companies during 1982-83 not only substantially reduced administrative work forces in line with actual and projected economic conditions, but made a large number of changes in compensation and benefit programs for both management and other non-union salaried employees. Overhead has been reduced by approximately 25%.

Stringent energy conservation measures have been adopted by the industry. Energy conservation efforts in the steel industry since 1972 have resulted in a 25 percent reduction in the Btus required to produce a ton of finished steel product. More improvement is in progress.

Diversification efforts have been intensified. A significant portion of the steel industry has diversified into a variety of non-steel business -- to improve profit stability. This has been accomplished primarily by external financing and hence has not taken internally generated funds away from investment in steel facilities.

Incremental technology initiatives are gaining momentum in the industry. They include major efforts in the following areas: recycling and resource recovery from waste materials; process control and sensor development; rapid-in-process analysis of liquid metal; direct measurement of temperature distribution within a solid or solidifying body of hot steel; automatic detection of pipe and gross porosity in hot and cold strip.

Despite these important initiatives, it is apparent the best and fastest way to improve the technological position of the American steel industry is to increase cash flow and therefore the capability to invest at a much higher level in the latest existing technology. This does not preclude being poised to exploit new technology such as strip casting when it becomes available. What is needed is sufficient investment capital to install continuous casters, process controls, and other major equipment items, to increase product quality and reduce costs. As several other major world steel industries are ahead of us in regard to investment in new equipment, we must catch up, and there is reason to do so. Our potential for reducing costs is now greater than theirs.

COMPETITIVE STATUS OF THE INDUSTRY

Mr. Chairman, government steel policy cannot ignore an essential question: How competitive is the American industry in its own market, and how can it be made more competitive?

Comparative costs can change rapidly. However, present cost relationships indicate it is incorrect to contend the U.S. industry can no longer compete in its home market.

Current Data Show U.S. Industry is Competitive

The latest data (2nd quarter 1984) from the World Steel Dynamics carbon steel model show that even with current misaligned exchange rates the U.S. steel industry is now cost competitive in its own market. This is shown in Table 1.

TABLE 1

COSTS PER NET TON SHIPPED*

2nd Quarter 1984
(at Actual Operating Rates)

	U.S.	Japan	West Germany	France	U.K.
Labor Costs............	$137.61	$ 95.98	$124.28	$126.74	$ 90.33
Raw Materials Costs....	301.69	255.33	242.62	221.18	255.33
Financial Costs........	38.76	96.35	49.73	75.19	51.67
Total................	$478.06	$447.66	$416.63	$423.11	$397.33
Dec. 1983 Entry Costs (duty, freight, handling) Into U.S. Market..................		$ 74.61	$ 70.76	$ 70.76	$ 70.76
Landed Costs in U.S., before Profit..........	$478.06	$522.27	$487.39	$493.87	$468.09

*Source: Table 5, World Steel Dynamics, Steel Strategist #9, February 1984--
Paine Webber Mitchell Hutchins, Inc.

Mr. Chairman, I reiterate these cost data are not domestic steel industry data, but instead, are from the Peter Marcus Paine Webber model, generally acknowledged to be the best and most accurate public model available for comparative information on the major world steel producers.

To illustrate the nature of our trade problem, table 2 lists the average value of steel imports entering the U.S. These data show that steel import values continue to be well under costs of production in most of the countries from which they originate.

TABLE 2

Average Value of Imports**	Dollars per net ton
Year, 1983	$374.48
First Quarter 1984	$362.77

There is now little doubt that imports are entering the United States at prices well under their costs of production. This has been occurring for nearly two decades. Moreover, these data on foreign costs of production embody foreign subsidies for materials and labor costs, grants which offset financial costs, and subsidized interest rates. If these subsidies were included, as they should be, foreign costs of production would be far higher than those listed above.

** Source: U.S. Bureau of the Census -- FOB Value

Comparative Steel Costs are Distorted by Misaligned Exchange Rates

In addition, assessments of the underlying competitiveness of the U.S. steel industry which ignore exchange rates are inherently distorted. This is illustrated in Table 3 , which shows how costs in the 2nd quarter of 1984 (at actual operating rates) would be altered if exchange rates had maintained the values which prevailed in 1978-79. This table shows the phenomenal extent to which exchange rate fluctations have altered comparative steel costs -- especially in regard to West Germany, France and the U.K. When measured against the Morgan Guarantee real effective exchange rate series, the shifts of exchange rates in the 1980s are an abberation, differing sharply from long-standing patterns and distorting underlying competitive relationships.

TABLE 3
SECOND QUARTER 1984 PRE-TAX COST PER NET TON
(At Actual Operating Rates)

	At 2nd Quarter 1984 Exchange Rates	At 1978-79 Exchange Rates Average	Percent Distortion
U.S.	478.06	478.06	
Japan	447.66	454.05	1.4
West Germany	416.63	481.54	15.6
France	423.11	645.11	52.5
U.K.	397.33	489.52	23.2

Source: WSD, Steel Strategist #9

OTHER INTERNATIONAL COMPARISONS OF EFFICIENCY

The most basic level on which industrial competitiveness can be evaluated is in terms of the efficiency with which inputs are used. Three of the major inputs are labor, energy and capital. Latest data (Table 4) show that the U.S. steel industry ranks with Japanese producers in terms of labor productivity at actual operating rates for carbon steel production by integrated producers. Given the inadequate investment of the U.S. industry, its carbon steel labor productivity represents a solid performance in comparison with the results achieved by foreign industries in newer plants built with government support.

Table 4

LABOR PRODUCTIVITY

(Manhours Per Net Ton Shipped at Actual Operating Rates)

	U.S.	Japan	West Germany	France	U.K.
1976	8.79	10.11	11.12	14.89	19.17
1977	8.95	9.98	12.57	14.26	21.26
1978	8.12	9.55	11.67	12.62	21.56
1979	8.29	8.55	9.35	11.35	18.58
1980	8.31	8.30	9.98	10.14	37.35*
1981	8.07	8.49	9.95	10.24	13.50
1982	7.84	8.07	11.08	10.83	13.35
1983 3Q Avg	6.69	7.82	10.92	11.03	10.63
1983 3Q	6.48	7.28	11.42	11.62	11.31
Annual Rate of Improvement	+1.9%	+2.2%	+2.8%	+3.2%	+3.7%

Source: WSD

* Strike Year

The U.S. advantage would be far less if each industry were able to operate at a high level of capacity. Certainly Japan, which is generally considered the world's most efficient steel industry, would have the best labor productivity at high operating rates. Since 1975, low operating rates have been a serious burden for the Japanese steel industry. Yet potential efficiency is economically meaningless unless demand is adequate to sustain the potential level of performance. If, over a long period, market demand is lower than projections - as has been the case in the world steel industry since 1975, potential efficiency is transformed from a competitive strength into a liability. Persistent excess capacity represents a managerial error, regardless of the potential efficiency of the facilities which are idled. Given the duration of the present crisis in the world steel industry and the persistent under-utilization of capacity, the use of a "standard" operating rate, rather than an actual rate (usually 90%), to describe efficiency is meaningless.

Energy Efficiency

Energy efficiency in terms of Btus per ton shipped, is set forth in Table 5:

Table 5

ENERGY EFFICIENCY

(millions of Btus per net ton shipped)

	U.S.	Japan	West Germany	France	UK
1973	36.9	31.3	35.4	41.9	37.5
1981	35.4	27.9	36.0	36.2	40.4
1983	34.8*	27.4	29.7	30.6	37.7

Source: WSD

* AISI data for 1983 show 24.73 million Btus per ton of steel shipped for all grades. WSD data refer to carbon steel only.

Here the U.S. industry ranks somewhat behind its European competitors and substantially behind Japanese producers. Table 10 describes overall energy usage, regardless of type (coal, electricity, oil, etc.). As the data indicate, improvements in overall fuel efficiency are somewhat difficult to come by; and the principal effect of the energy crisis of 1973 has been a shift in the mix of energy inputs (from petroleum to coal and electricity) rather than a major reduction in total energy usage. The U.S. performance in energy conservation would substantially improve at higher levels of investment, as higher yields, derived from a higher rate of continuous casting, reduce Btus per ton of steel shipped.

Efficiency of Capital Utilization

In the 1960s and 1970s, U.S. industry was substantially ahead of all of its major competitors, with respect to return on total capital employed. It is still far ahead of its European competitors, in terms of pre-tax profit per ton of steel shipped, and since 1976, only slightly behind Japanese producers. The efficiency of capital usage is difficult to measure in physical terms. One measure of capital efficiency is operating rate, or utilization of existing capacity. In this regard, the performance of the U.S. industry since the mid-1970s has on average exceeded that of its major competitors. This is shown in Table 6.

Table 6

CAPACITY UTILIZATION

(Production as % of reported capability)

	U.S.	Japan	West Germany	France	U.K.
1976	80.6	77.1	62.4	75.0	78.9
1977	78.6	68.4	57.3	66.5	71.2
1978	86.6	64.2	60.7	69.7	71.4
1979	95.1	67.4	66.7	71.9	74.6
1980	77.8	65.4	65.1	73.6	39.9
1981	85.7	60.3	62.5	72.0	61.5
1982	54.5*	62.4	54.4	63.2	58.3
1983 3Q Avg	65.4*	61.4	56.3	60.7	72.0
1983 3Q	66.91*	65.8	55.9	57.16	72.21
76-83 Average	78.0	65.8	60.7	69.1	69.8*

Source: WSD

* AISI data, which cover all production not just carbon as in WSD, show that capacity utilization was 48.4% in 1982, approximately 54.5% for 9 months of 1983, and 69.4% in January, 1984.

* strike year of 1980 is excluded from average

Yield

A final measure of physical efficiency is yield (Table 7.)

Table 7

PERCENTAGE YIELD
(shipments/raw steel production, at actual operating rates)

	U.S.	Japan	W. Germany	France	UK
1975	71	74	74	72	72
1976	72	78	75	72	72
1977	72	80	75	72	72
1978	72	82	75	73	72
1979	72	83	75	73	73
1980	73	84	75	74	73
1981	73	85	75	74	73
1982	73	86	76	75	73
1983	76*	86	76	75	75

Source: World Steel Dynamics, Core Reports J and O

*Preliminary

Yields are an important measure of efficiency. According to this measure, the U.S. industry is generally less efficient than Japanese producers. There are several reasons for this. One major reason has to do with differences in product mix, since complex, higher value products inherently entail lower yields. Since the U.S. product mix is more sophisticated than that of its foreign competitors, U.S. yields will necessarily lag behind. More significant, however, is the fact that U.S. yields have been suppressed because of the inadequacy of the industry's cash flow since the late 1960s. This retarded the industry's investment in continuous casting, a technology which greatly improves yields and which became commercially viable on a large scale during the 1970s. Foreign competitors have moved more rapidly to continuous casting, although in many cases (particularly in Europe) internal cash flow has been even lower than in the U.S. In the E.C., governments have provided more than $30 billion to their steel industries over the past 10 years. The comparisons of output by the continuous casting method are contained in Table 8.

Table 8

CONTINUOUS CASTING
PERCENTAGE OF 1983 SHIPMENTS

United States	29.7
Japan	81.4
West Germany	69.6
France	63.3
United Kingdom	46.4

Source: WSD

It is remarkable that through a combination of other efficiencies, U.S. yield is as high as it is, with such a low percentage of continuous casting in the industry. The potential for further reductions in costs, (including energy costs) through a higher casting rate, is, therefore, much higher in the U.S. industry than among its major competitors.

Summary

What do these data tell us about the overall competitiveness of the U.S. steel industry in terms of efficiency? They show that the U.S. steel industry is still relatively competitive, although behind Japan in some respects. If the U.S. is compared only with its European competitors, where the distortions caused by subsidies and trade barriers have been most apparent, the U.S. industry is highly competitive, in two of these three basic measurements of efficiency.

Certainly there is no justification for the view that average practice in the U.S. is inferior to average practice in Europe. Nonetheless, the trends in these data are disturbing. Should they continue, the relative balance of competitiveness will eventually be altered, to the disadvantage of the U.S. industry. Thus, these data also show the necessity of timely and aggressive action now to expand the present level of industry competitiveness.

Labor Costs

Currently, American steelworkers are among the most highly compensated industrial workers in the world. Average employment costs in the steel industry were over $22 at the end of 1983. Many of our steelworkers have been laid off as a result of the steel industry crisis, and the industry will probably never return to the levels of employment prevailing five years ago.

International Labor Cost Comparisons

We have already demonstrated the current high level of U.S. productivity in the production of carbon steel. But substantial advantages in labor productivity can be offset by high employment costs. Employment costs in the American steel industry have had exactly this effect: the U.S. advantage in labor productivity at actual operating rates is offset by high hourly employment costs.

Trends in Employment Costs

The U.S. disadvantage is starkest in terms of hourly employment costs (Table 9). Roughly parallel trends in the growth of employment costs increase the absolute disadvantage for the U. S. steel industry.

Table 9

HOURLY EMPLOYMENT COSTS

(In Dollars, at Actual Operating Costs)

	U.S.	Japan	West Germany	France	U.K.
1973	7.89	4.04	5.63	4.71	2.94
1974	9.29	5.00	6.59	5.29	3.61
1975	10.83	5.54	7.61	7.23	4.56
1976	12.18	5.81	8.04	7.64	4.44
1977	13.44	7.00	9.38	8.45	4.51
1978	14.73	9.44	11.55	10.56	5.93
1979	16.39	9.73	13.55	12.91	6.68
1980	19.06	10.24	14.92	13.38	9.96
1981	20.78	11.59	13.18	12.69	9.56
1982	24.67	10.89	13.27	12.14	9.14
1983 3Q Avg	24.07	11.89	12.91	13.22	[illegible]
1983 3Q	23.19	11.74	12.22	12.53	7.88

Source: WSD

Steel Employment Costs and the Manufacturing Average

The premium paid to U.S. steelworkers versus the manufacturing average has been widening. Steelworkers all over the world are relatively high-paid workers. This is due to the fact that the steel industry tends to be highly unionized, the work is skilled, and often hot and hazardous. Yet the premium paid to steelworkers in the U.S. during the 1970s increased dramatically (from 133% in 1970 to 175% in 1981), so that it now far exceeds the premium paid in other countries. The divergence between employment costs in the steel industry and the manufacturing average shows more clearly than absolute employment costs the vulnerable position of steelmaking in the U.S.

Industries whose employment costs far exceed the manufacturing average will suffer a competitive disadvantage versus their international rivals. This is now the situation facing the U.S. steel industry. During the 1960s, the premium in U.S. steel employment costs actually decreased and was only marginally above the European average. This relationship broke down in the 1970s. Although the steel premium in Japan approaches that in the U.S., this is misleading. The Japanese data exclude lower-paid contract workers, who make up between 40 and 50% of the steel labor force. Inclusion of this component would likely lower the actual Japanese steel premium to near the European level -- leaving the U.S. in an isolated and highly vulnerable position. Thus, even as the productivity advantage of the U.S. steel industry eroded in the 1960s and 1970s, its employment cost disadvantage increased.

Unit Labor Costs

Unit labor costs are shown on Table 10. These combine productivity and hourly employment cost data to describe unit labor costs for the U.S. steel industry and its chief competitors.

Table 10
UNIT LABOR COSTS
(Dollars Per Ton Shipped at Actual Operating Rates)

	U.S.	Japan	West Germany	France	U.K.
1976	107.03	58.7	93.67	124.93	85.4
1977	120.41	69.79	118.31	122.39	103.4
1978	119.81	89.99	137.77	134.36	129.38
1979	136.17	83.31	134.4	148.04	125.67
1980	158.56	85.17	149.29	156.83	410.79 *
1981	168.0	96.09	131.63	129.86	131.33
1982	194.64	87.99	147.04	138.53	122.42
1983 3Q Avg	161.78	93.0	140.16	146.37	95.20
1983 3Q	150.76	85.5	140.58	156.05	90.78
Annual Rate of Increase	6.4%	7.3%	6.2%	3.5%	-0.2%

* Strike year
Source: WSD

The U.S. industry must, and is now beginning to, reverse the trend resulting in the gradual elimination of its productivity advantage, combined with rapidly increasing employment costs. The continued viability of steel production in the United States and the future of steelworker jobs are now dependent on containing recent trends in employment costs. They are also dependent upon revisions in work rules and operating practices which would boost the industry's rate of productivity growth. Labor and management both share the responsibility for this distortion and each must play a significant role in its reversal.

The steel labor contract, which went into effect in March 1983, represents a step towards eliminating the labor-cost disadvantage of American steel producers. It reduces wages by $1.25/hr., although this reduction will be restored through the life of the contract. The contract also reduces COLA benefits, vacation and paid holiday allowances. For their part, steel firms are committed to investing these savings in existing plants and to extending supplemental unemployment benefits to laid-off steelworkers.

This agreement is an important first step, an indication that both labor and management are committed to strengthening the competitive standing of their industry.

CAUSES OF THE AMERICAN STEEL TRADE PROBLEM

The major causes of America's steel trade problem are the existence of substantial excess capacity abroad, the increase of foreign government control, subsidization and targeting of steel, and generally ineffective U.S. Trade Law enforcement. All of these had a direct effect on the flow of imports into the U.S. market.

Profit Record of Steel Producers

After the boom years of 1973-74, the world steel industry underwent a severe downturn. In part, this reflected overall weakness in the economies of industrialized countries, where growth has been sluggish since 1974, accentuated by the overhang of excess steel capacity on declining demand. The best indicator of the severity of the impact on steel is the profit record of steel producers.* Table 11 presents some data on the post-1974 profitability of major steel firms in the principal steel producing regions of the world (Europe, Japan, and the U.S.). This table clearly shows what has occurred in the world steel industry during this period. European producers amassed losses approximating 15 billion dollars from 1975 to 1980. While Japanese and North American producers earned profits in that period, margins have generally been thin. When steel segment operations alone are considered, West German, Japanese, and U.S. producers incurred operating losses in several of these years.

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* Calculated from data provided by World Steel Dynamics, the only public model based upon statistical data on steel issued by steel industries and their governments. Developing country data is not generally available.

TABLE 11

CONSOLIDATED RETURN ON SALES: NET INCOME/SALES (%)

(major producers)

	1975	1976	1977	1978	1979	1980	1981	1982
U.S.	4.3	3.3	0.4	2.5	2.1	3.0	3.9	-6.3
Japan	0.6	0.9	0.6	1.8	3.3	2.9	1.9	1.5
W. Germany	1.4	1.1	0.1	0.3	0.4	0.6		
France	-15.9	-10.7	-23.5	-14.0	-10.1	-11.5		
UK	-10.8	-3.1	-14.1	-9.4	-17.6	-22.6		
Italy	-4.0	-5.9	-17.6	-13.4	-8.3	-20.4		
Belgium	-7.9	-2.6	-13.9	-10.2	-2.5	-9.4		
Canada	6.0	4.5	4.9	6.2	7.1	7.4		

Source: World Steel Dynamics, "Financial Analysis of International Steelmakers."

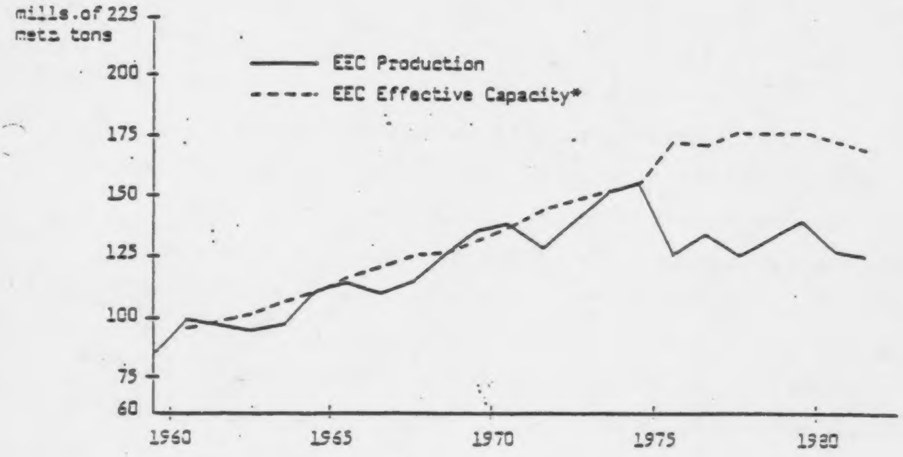
Massive and persistent losses show that the present problems of the world steel industry are structural rather than cyclical. These problems have arisen largely from foreign government actions, yet they have resulted in increased foreign government involvement. Rather than accept the losses in employment and foreign earnings which would result from the bankruptcy or reorganization of steel firms, many governments -- especially in Europe and in developing countries -- have increased their subsidies for steel industries. This has intensified the underlying problems resulting in the politicization of international steel trade and the near breakdown of the market mechanism. There are many causes of this, but the principal cause is the development of excess capacity worldwide, which began in the late 1960s.

European Capacity and Production

The historical trends in output and capacity in the European Community are described in Figure 1. This provides clear evidence of the extent to which capacity expansions accentuated the effects of weak demand for European steel. While European capacity and production maintained a fairly close relationship during the 1960s, they began to diverge sharply after 1975. Since that time, even peak years (such as 1979) have coincided with dangerously low operating rates.

Figure 1

EUROPEAN CAPACITY AND PRODUCTION, 1960-182



* assumed to be 87% of gross, rated capacity.

Source: WSD, Steel Strategist #6 (August, 1982)

The construction of excess capacity was not limited to Europe. Table 2 provides some evidence on the rate of capacity increases in several national steel industries, relating this to the increase in domestic demand.

TABLE 12

CAPACITY VS. CONSUMPTION

	Crude Steel Capacity (million of m. tons)			Apparent Steel Consumption (million of m. tons crude steel equivalent)		
	avg., 1969-70	avg., 1979-80	annual rate of growth (%)	annual rate of growth (%)	avg., 1969-70	avg., 1979-80
Belg.Lux.	19.9	26.8	3.0	-1.6	4.56	3.89
France	25.2	32.3	2.5	-0.6	23.0	21.69
Germany	49.7	68.7	3.3	-0.5	40.98	39.08
Italy	19.5	37.2	6.7	3.0	20.21	27.25
UK*	29.1	28.7	-0.2	-2.1	24.98	20.65
Japan	81.0	156.9	6.8	2.4	67.15	84.90
U.S.	140.5	140.1	...	-0.1	132.95	131.14

*Calculation made for 1978-79 to eliminate effects of 1980 strike.

Sources: U.N. statistics for capacity, OECD statistics for apparent consumption.

This table shows that during the 1970s the major European countries and Japan had growth in capacity exceeding the growth in consumption, but that the United States did not. In almost all other countries, substantial investments were made to increase capacity which domestic markets could not absorb. As a result, many industries, were, in effect, forced to rely on export markets to boost or maintain operating rates.

It now appears that overaggressive expansion on the part of the Japanese steel industry was a serious strategic mistake. The prosperity and efficiency of the Japanese industry has been based on rapid expansion ahead of the market, providing significant economies of scale. Economies of scale quickly turn into diseconomies, however, when operating rates fall. As world steel demand has remained weaker than the forecasts projected in the early 1970s, excess capacity in the Japanese steel industry has continued to be a persistent problem. That industry is now facing cash-flow constraints, relatively high financial costs, and significant physical inefficiencies due to the logistical problems of running large facilities at much lower rates than those for which they were designed.

Overexpansion has led to even more difficult problems in Europe. It is doubtful that firms run by private managers would have pursued the kind of capacity expansion described in Table 12. In Europe, the availability of government funding (either directly or through loan guarantees) and political pressure for expansion were the key elements leading to the boom in steel capacity between 1965 and 1975. Yet, the politicization of investment decisions during that period has been a major cause of Europe's present crisis of excess steel capacity.

In the advanced developing countries, overexpansion of the steel sector has led to a vicious cycle of growing foreign debt, industry losses, government subsidies and unfair trade. Despite falling demand worldwide, the developing world has added some 50 million tons of new capacity since 1975. Since steel industries in the developing world (especially integrated plants) are for the most part government-owned and protected, this has accentuated the world overcapacity problem. It has done so by intensifying competitive pressures in export markets in general, and in particular in the U.S. market. Thus, U.S. steel imports from countries outside the EC, Canada and Japan, which had averaged 3.5 percent of apparent supply in the period 1979-81, rose to 5.3 percent in 1982 and to 7.6 percent in 1983 (including 8.5 percent in the second half of 1983 and nearly 10 percent so far in 1984).

Agreements to Allocate Markets

The drive to export has been linked to a related but contradictory response to the crisis of excess capacity: the effort to restrict imports. The most public examples of strict import restrictions are in Europe. Since the onset of the European steel crisis in 1975, the EEC has sought to coordinate an extensive program of market controls, regulating prices and allocating markets. Viscount Davignon of Belgium, who controls the administration of this EEC program, justified it in the following terms:

> The steel industry is a key factor in our independence; Europe cannot therefore allow responsibility for its steel supplies to pass outside the Community for the sake of the international division of labor.*

By the spring of 1978, agreements had been concluded with all major exporters to the European market, stringently limiting imports into the EEC. These limitations have been regularly renewed and are still in effect. Tied to the drive to boost exports, this led to an increase in Europe's positive steel trade balance by the end of the 1970s, a point which also applies to Japan (see Table 13). In effect, these agreements left much of the world steel market subject to a cartel-like arrangement.

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* A.F. Lowenfeld. Public Controls on International Trade (New York, 1979) p. 285.

TABLE 13

Steel Trade Balance: U.S., Japan, and EEC -- 1971-81
(Millions of net tons)

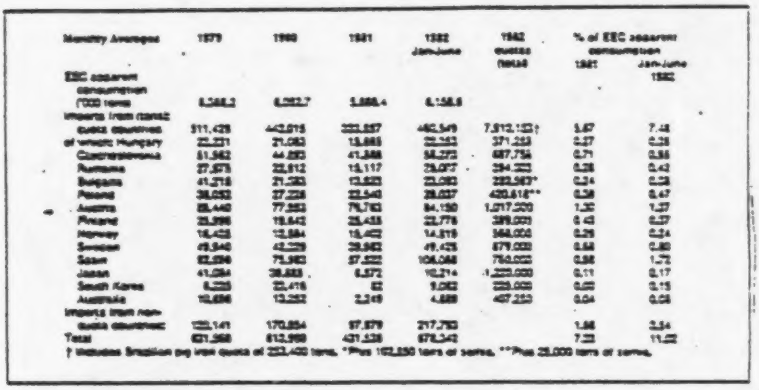
	U.S.	Japan	EEC (9)
1971	-15.48	25.42	16.97
1972	-14.81	22.90	16.18
1973	-11.10	27.07	19.73
1974	-10.14	35.19	29.36
1975	-9.06	31.68	22.87
1976	-11.63	39.44	13.60
1977	-17.30	36.50	18.43
1978	-18.71	33.54	25.97
1979	-14.70	32.11	23.37
1980	-11.39	31.38	19.96
1981	-16.99	29.60	26.72

Note: Positive number represents trade surplus.
Source: AISI for U.S., IISI for Japan and EEC (OECD for 1981)

The extensive network of European quotas is described in Table 14. It is ironic that European steel exporters have criticized as "protectionist" the legal action against subsidized and dumped imports taken by the U.S. steel industry, while at the same time maintaining strict control over imports into their own market. The Japanese, who have a competitive cost advantage against European producers, shipped only about 300,000 net tons into the EEC during 1983. Japanese shipments to the U.S. market in 1983 were 14 times greater.

TABLE 14

EEC Imports, Quotas, and Import Penetration



Monthly Averages	1979	1980	1981	1982 Jan-June	1982 quotas (total)	% of EEC apparent consumption 1981	% of EEC apparent consumption Jan-June 1982
EEC apparent consumption ('000 tons)	6,368.2	6,282.7	5,888.4	6,158.8			
Imports from quota countries	311,429	442,015	333,837	460,549	7,512,153†	5.67	7.48
of which: Hungary	22,231	21,083	13,885	22,252	371,283	0.27	0.36
Czechoslovakia	61,362	44,283	41,388	58,272	687,756	0.71	0.86
Rumania	37,575	22,812	15,117	23,077	394,323	0.26	0.42
Bulgaria	41,718	21,283	13,885	23,080	232,583*	0.24	0.33
Poland	38,052	27,228	22,540	28,037	420,618**	0.38	0.47
Austria	88,440	77,553	79,763	84,130	1,017,200	1.35	1.37
Finland	23,598	19,642	25,433	22,776	389,000	0.43	0.37
Norway	18,423	12,884	15,422	14,519	368,000	0.25	0.24
Sweden	49,940	42,229	39,982	49,425	679,000	0.68	0.80
Spain	82,594	71,982	57,522	106,048	750,000	0.98	1.72
Japan	41,084	38,833	6,572	10,214	1,222,000	0.11	0.17
South Korea	6,225	22,416	62	9,062	223,000	0.00	0.15
Australia	10,696	13,232	2,249	4,889	497,253	0.04	0.08
Imports from non-quota countries	122,141	170,854	97,979	217,793		1.66	3.54
Total	631,568	612,969	431,536	678,342		7.33	11.02

† Includes Brazilian pig iron quota of 222,400 tons. *Plus 102,850 tons of scrap. **Plus 28,000 tons of scrap.

Source: Metal Bulletin, November 10, 1982

In Japan, there have been similar (if less public) restrictions on steel imports, especially from low cost producers in Korea and Taiwan. Recently a published article appeared in the Japan Metal Bulletin, stating that the Japanese Steel Importers Association (formed in November 1983) had in January "voluntarily agreed" to cut back the amount of steel imports to a level not exceeding 3 percent of the total market.

In developing countries, import restrictions have been even more severe. Argentina, for example, requires import licenses for all flat rolled steel products, and such licenses are almost impossible to get. Many other developing countries rely either on high tariffs or licenses to limit steel imports. In Brazil, the most extreme example of protectionism is the so-called "Law of Similars." It means that anything that is made in Brazil cannot be imported without permission, regardless of the sufficiency of domestic production.

Subsidization and Nationalization

As world steel industry problems intensified, private firms gave way to government control. In late 1978, major steel producers were effectively nationalized in France and Belgium. According to private European steel producers, fully 70% of all the steel companies in Europe are dependent on the state; about half of the EEC's total production is now under direct government control.

The employment effects of steel mill rationalization in certain regions of Belgium and France caused national political concerns. Governments intervened to protect domestic steel producers, representing a camouflaged form of unemployment insurance. Rather than face political unrest, European governments have subsidized continued production in inefficient steel plants. Such practices, however have entailed enormous costs.

Total European subsidies, actual and projected, have been estimated at an incredible 80 billion marks for the period 1975-1985 - over $30 billion even at present exchange rates. Government funds have been devoted not just to covering operating losses; they have alos been applied to modernization and investment - all under the guise of "restructuring." Table 15, below, excerpted from Agence Europe, documents the extensive amount of state aid provided by European governments to their steel industries. The total estimate is approximately $34 billion.

TABLE 15 State Aid for Restructuring
(millions of ECUs)

Country	Aid Notified	Approved	Approved Conditionally	Declared Incompatible
Belgium	4.304	1.721	2.196	414
Cockerill-Sambre	3.648	1.552	2.096	
Denmark	31	31	-	
F.R. Germany	4.314	700	3.614	
Arbed Saarstahl	1.045	664	381	
Hoesch	1.014	92	992	
Kloeckner-Maxhuette	587	31	556	
Krupp	514	3	556	
Peine-Salzgitter	225	-	225	
Thyssen	693		693	
Greece	6	-	-	6
France				
Sacilor and Usinor	7.613	5.501	2.112	
Ireland	231	96	-	135
Italy	10.270	1.661	8.609	
Finsider	6.831	695	6.136	
Luxembourg	540	144	396	
Netherlands				
Hoogovens	514	94	420	
United Kingdom				
British Steel Corp.	5.763	3.089	2.674	
Total	33.636	13.190	19.891	555

6-I&SM, FEBRUARY 1984

The restructuring of the European steel industry has as its publicly announced goal the reduction of capacity to redress the balance between potential supply and demand. Recognition of this need has come fairly late in Europe - after other responses had failed to resolve the crisis. Recently, however, restructuring has been the key word for European planners. Continued government subsidies are now justified as necessary components of restructuring. European producers now justify increased subsidies by a rather peculiar logic: the old subsidies were bad, and future subsidies must be avoided, but present subsidies are necessary. The subsidies now being granted are allegedly designed to "restructure" the European steel industry so that future subsidies are not needed.

With the exception of Britain, however, many European countries are now subsidizing the replacement of inefficient facilities with new ones - with insufficient reduction in capacity. "Restructuring" subsidies will not adjust European production along lines suggested by competitive relationships (which would entail far greater capacity reductions than are occurring), but instead they will ensure that the capacity reductions occur elsewhere - presumably where steel operations and investment are not state-supported.

Unprecedented government involvement, allegedly designed to restructure European steel production on a profitable basis, has instead distorted the market mechanism and propped up inefficient producers for political reasons. The principal victims of such programs - besides European taxpayers - have been the relatively efficient private firms, which are being pushed into bankruptcy by competition from state-supported industries willing and able to sell steel at prices well below their costs of production.

While government involvement in Japan is more subtle, MITI and other agencies are deeply involved in a restructuring program. In general, the Japanese steel industry is reducing large increments of capacity and shifting to a maintenance mode, where investment is designed to raise the efficiency of existing facilities rather than to expand capacity. While Japanese subsidies do not seem to be widespread at this time, the government has controlled raw materials prices (including oil) and management of the adjustment process. As a result, buying and selling cartels have developed in both Europe and Japan; these cartels have even reached some agreements on dividing up other markets.

In countries such as Brazil, Korea and Taiwan - countries which already have significant excess capacity - there are continuing efforts to exapnd capacity based on policies of import substitution and export promotion. Government ownership, control and subsidization of steel is a basic fact of economic life in these countries. In Brazil, Mexico and South Korea government ownership ranges between 68 and 75 percent, and these percentages are all expected to increase in coming years as new government projects come on line. Meanwhile, increasing government subsidies in such countries continue to distort trade and injure U.S. producers. Equally alarming is the fact that our major foreign competitors in Europe and Japan are continuing to provide subsidized financing for their exports of steelmaking equipment to the developing world, yet these same countries severely limit their imports of steel from the plants they help fund.

The Struggle Over Where Retrenchment Will Occur

Until excess capacity abroad is reduced, our steel trade crisis will persist. Government involvement has generally kept the market from determining where capacity reductions should occur. It is the least efficient facilities which should be retired - yet many of these plants are receiving subsidies in Europe and elsewhere. Should these plants survive and more efficient private plants be closed, the net loss to the world economy in terms of efficiency will be substantial. More significant is the fact that jobs and income will be lost in regions which have resisted playing the subsidies game. This is the key factor in the present steel trade problem.

In some ways the U.S. steel industry was better able to cope with foreign excess capacity than its international counterparts - at least until the catastrophic downturn of 1982-83. This provides some evidence of the advantages of a private, market-based industry. The U.S. industry has not expanded its capacity, even though it cannot supply all of its home market in a year of strong demand. Yet in many ways the U.S. steel industry has suffered most from the over-expansion of world steel capacity. Our trade laws have not prevented the U.S. market from being seriously injured by surging imports of unfairly traded steel. The U.S. steel market is the most open major steel market in the world, and U.S. sales are the chief "spoils" in the intense struggle for exports amoung countries with substantial excess capacity. Most significantly, U.S. producers are dependent on private capital markets for funds. Inefficient operations are sustained abroad via government supports, but no such props exist for U.S. firms, regardless of relative efficiency.

As we have noted, the market mechanism in steel has been more or less dismantled outside the United States. As a result, the price information which the market provides is misleading in regard to where capital should be invested, or where retrenchment should occur. Furthermore, the distorting effects of government intervention have been intensified by recent trends in exchange rates.

The messages given by market prices for steel from many foreign sources do not reflect underlying competitiveness of these sources. The surge of imported steel since 1980 stems largely from intervention by foreign governments and from the disastrous effects of an overvalued dollar. If we look behind these factors, it is demonstrable the underlying competitive standing of the American steel industry is still relatively strong. There is clearly no basis for arguing that immutable factors support further massive contraction in the U.S. industry, or that government policies designed to assist the industry cannot reverse its current decline.

Mr. Chairman, there has been no definitive response from a succession of Administrations to the trade distortions we have outlined in this statement. Accordingly, we now urge the Congress to begin the process of returning some equity to the trade in steel by enacting H.R. 5081, the Fair Trade in Steel Act. This legislation would limit steel imports for five years to the average level which occurred in the 1970s, while we further modernize, a level higher today than that allowed by any other advanced industrial country (including the EC as one trading unit). This would be a moderate response of the U.S., Mr. Chairman, to the outrageous conditions we have described affecting world trade in steel.

STATEMENT

BY

ALTON D. SLAY

FINANCE COMMITTEE

UNITED STATES SENATE

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8 JUNE 1984

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I APPRECIATE VERY MUCH BEING ALLOWED TO SUBMIT THIS STATEMENT. THE TOPIC OF TODAY'S HEARING IS OF GREAT INTEREST TO ME. BEFORE MY RETIREMENT FROM THE MILITARY APPROXIMATELY THREE YEARS AGO, I APPEARED BEFORE OTHER CONGRESSIONAL COMMITTEES AND TESTIFIED CONCERNING THE STATUS OF OUR INDUSTRIAL BASE IN GENERAL AND ABOUT TRENDS IN SOME OF OUR BASIC INDUSTRIES LIKE MINING AND METALS PROCESSING. I BELIEVED AT THAT TIME AND STILL BELIEVE STRONGLY THAT OUR NATION'S DEFENSE POSTURE IS BEING ADVERSELY AFFECTED BY THOSE TRENDS.

IN GENERAL, I WILL FOCUS ON OUR AILING INDUSTRIAL BASE AND HOW THAT ILLNESS AFFECTS OUR NATIONAL DEFENSE POSTURE WITH EMPHASIS ON OUR BASIC MATERIALS PROCESSING INDUSTRIES LIKE STEEL.

UNLIKE MANY OTHER WITNESSES WHO HAVE APPEARED AND WILL APPEAR BEFORE THIS COMMITTEE, I AM NOT AN EXPERT IN THE STEEL BUSINESS. BUT I AM AN EXPERT IN THINGS RELATED TO THE DEFENSE OF OUR COUNTRY, AND AM VERY SENSITIVE TO AND CONCERNED BY ANY SITUATION, TREND, OR FORECAST WHICH COULD ADVERSELY AFFECT IT. AND WHAT HAS HAPPENED OVER THE PAST TWO DECADES AND CONTINUES TO HAPPEN TO OUR INDUSTRIAL BASE IN GENERAL, TO OUR BASIC MATERIALS INDUSTRY SPECIFICALLY, AND TO OUR STEEL INDUSTRY IN PARTICULAR IS A SITUATION, A TREND, AND A FORECAST WHICH, IN MY OPINION CAN AND VERY DEFINITELY WILL ADVERSELY AFFECT THE DEFENSE CAPABILITY OF OUR NATION. I AM SENSITIVE TO THAT FACT AND I AM CONCERNED ABOUT THAT FACT; AND THAT IS WHAT I'M GOING TO TALK ABOUT.

ABOUT THREE AND ONE-HALF YEARS AGO, I TOLD SEVERAL COMMITTEES OF CONGRESS, AND THE ENTIRE HOUSE LEADERSHIP SITTING 'IN CAMERA', OF MY VERY STRONG CONVICTION THAT WE WERE, AT THAT TIME, IN THE GRIP OF A VIRULENT INDUSTRIAL DISEASE WHICH WAS SAPPING OUR STRENGTH AND WHICH, UNLESS CURED, WOULD INEVITABLY RESULT IN FORFEITURE OF OUR POSITION

OF LEADERSHIP IN THE WESTERN WORLD---LEADERSHIP NOT ONLY IN AN INDUSTRIAL SENSE, BUT POLITICALLY AND MILITARILY AS WELL.

NOW SOME--PERHAPS MANY--WILL SAY THAT THIS IS 1984, NOT 1980 AND THAT THINGS HAVE CHANGED; THAT WE'VE SEEN A GREAT RESURGENCE OF OUR ECONOMY AND OUR INDUSTRY IS BOOMING ONCE AGAIN. ALL OF WHICH IS TRUE; BUT THE INFERENCE THAT OUR INDUSTRIAL ILLNESS HAS BEEN CURED IS NOT TRUE. SOME OF THE MOST VISIBLE SYMPTOMS HAVE BEEN MASKED, BUT THE BASIC UNDERLYING PROBLEMS ARE STILL THERE; NONE HAVE DISAPPEARED--IN FACT, SOME OF THEM HAVE BECOME WORSE SINCE 1980.

I HAVE SPENT THE GREATER PART OF MY LIFETIME WEARING A UNIFORM. BECAUSE OF THAT, ONE COULD LOGICALLY CONCLUDE THAT MY PRINCIPAL CONCERN IS FOR THE DEFENSE INDUSTRIAL BASE. SUCH A CONCLUSION WOULD BE TECHNICALLY CORRECT BUT NOT COMPLETELY CORRECT. ALTHOUGH I HAVE SPENT MANY YEARS DEALING WITH DEFENSE PROCUREMENT, I AM INCAPABLE OF SEPARATING THE DEFENSE INDUSTRIAL BASE FROM OUR INDUSTRIAL BASE IN GENERAL. I FRANKLY CAN'T EVEN DEFINE, MUCH LESS FIND WHERE ONE STARTS AND THE OTHER LEAVES OFF.

I DO WORRY GREATLY ABOUT THE DEFENSE ASPECTS OF AN AILING INDUSTRIAL BASE. BUT I ASSERT TO YOU THAT THOSE ASPECTS CANNOT BE CONSIDERED SEPARATELY FROM THE PROBLEM AS IT RELATES TO OUR TOTAL INDUSTRY AND THE ECONOMY AS A WHOLE..

AND THE CONVERSE OF THAT ASSERTION IS, IN MY MIND, ALSO TRUE. ONE CANNOT ADEQUATELY CONSIDER THE ECONOMIC ASPECT OF OUR INDUSTRIAL BASE PROBLEM AND ITS SOLUTION IN ISOLATION FROM THE DEFENSE ASPECT OF THE PROBLEM. THEY ARE COMPLETELY AND INEXTRICABLY INTERTWINED.

DEFENSE PREPAREDNESS WITHOUT INDUSTRIAL PREPAREDNESS IS A SNARE AND A DELUSION. AT THE VERY HEART OF WHAT I HAVE TO SAY TO THIS SUBCOMMITTEE IS MY CONVICTION THAT IT IS A GROSS CONTRADICTION TO THINK THAT WE CAN MAINTAIN OUR POSITION AS A FIRST-RATE MILITARY POWER WITH A SECOND-RATE INDUSTRIAL BASE. IT HAS NEVER BEEN DONE IN THE HISTORY OF THE MODERN WORLD.

ONE CANNOT TALK FOR VERY LONG ABOUT DEFENSE PREPAREDNESS, AS I WILL TODAY, WITHOUT DISCUSSING THE THREAT. THEREFORE I WANT TO SPEND JUST A FEW PARAGRAPHS ON THAT SUBJECT.

I ASK THAT YOU CAST YOUR MINDS BACK 22 YEARS AND THINK IN THE CONTEXT OF OUR MILITARY SITUATION IN 1962.

IN THOSE DAYS, AND FOR THE PRECEDING TWO DECADES, WE WERE THE STRONGEST NATION IN THE WORLD, BY FAR; WE WERE PROBABLY STRONGER THAN THE REST OF THE WORLD COMBINED.

WE HAD A CONVENTIONAL FORCE SECOND TO NONE; BUT, MORE IMPORTANTLY, WE HAD OVERPOWERING NUCLEAR SUPERIORITY.

WE COULD MEET AGGRESSION SQUARELY BECAUSE WE WERE NOT SUSCEPTIBLE TO NUCLEAR BLACKMAIL--EITHER DIRECT OR IMPLIED. AND WE DID MEET AGGRESSION AGAINST OUR INTERESTS SQUARELY WHEREVER AND WHENEVER IT OCCURRED.

RIGHT AFTER WW II, WE TOLD THE SOVIETS TO GET OUT OF IRAN. THEY DID. THEY HAD NO CHOICE.

A SHORT TIME LATER, WE TOLD THE SOVIETS, THROUGH THE TRUMAN DOCTRINE, TO STAY OUT OF GREECE AND THE MIDDLE EAST. THEY DID. THEY HAD NO CHOICE.

IN 1948, WE MET HEAD-ON THE CHALLENGE THE SOVIETS THREW AT US IN BERLIN AND KEPT THAT CITY OUT OF SOVIET HANDS.

IN 1950, WE MET THEIR CHALLENGE IN KOREA AND PREVENTED A TAKEOVER OF THE REPUBLIC OF KOREA.

AND CUBA IN 1962. WHEN KRUSCHEV DECIDED TO PLACE NUCLEAR MISSILES IN CUBA, PRESIDENT KENNEDY SAID, IN ESSENCE--"REMOVE YOUR MISSILES OR WE'LL DESTROY THEM." AND KRUSCHEV HAD TO BACK DOWN. HE KNEW THAT THE CONVENTIONAL ARMS HE COULD BRING TO BEAR IN CUBA WOULD BE TOTALLY INSUFFICIENT TO PREVENT THE DESTRUCTION OF THE MISSILES AND PERHAPS THE INSTALLATION OF A DEMOCRATIC FORM OF GOVERNMENT IN CUBA, FOR THAT MATTER.

BUT MORE IMPORTANTLY, HE KNEW THAT HIS NUCLEAR MISSILE RATTLING MEANT NOTHING. THE U.S.---NOT THE SOVIET UNION---HELD ALL THE NUCLEAR HIGH CARDS.

BUT THAT WAS THEN---THAT WAS THE 1962 CONTEXT. AND THAT'S THE WRONG CONTEXT. WHAT A DIFFERENCE THOSE 22 YEARS HAVE MADE!!!

THE OVERWHELMING STRATEGIC NUCLEAR EDGE THAT WE ENJOYED FOR SO MANY YEARS HAS DISAPPEARED. AND I COULD GIVE YOU A LOT OF STATISTICS ON THE RELATIVE CONVENTIONAL MILITARY POWER OF THE SOVIET UNION AND THE WARSAW PACT VERSUS THE US AND NATO, BUT I WON'T DO THAT. THOSE STATISTICS ADD UP TO JUST ONE POINT--THE SOVIETS AND THEIR ALLIES HAVE BUILT OVER THE PAST QUARTER CENTURY THE MOST POWERFUL WAR MACHINE THE WORLD HAS EVER SEEN.

NOW, CONSIDER FOR A MOMENT--WHAT IF WE HAD ANOTHER CUBAN MISSILE CRISIS, OR FOR THAT MATTER, A NICARAUGUAN MISSILE CRISIS THIS MONTH--APRIL, 1984? WHAT WOULD WE DO? WHAT WOULD BE OUR OPTIONS? WHAT WOULD BE THE HAZARDS? HOW WOULD WE CONFRONT THE SITUATION?

QUITE OBVIOUSLY, THE SITUATION IS MUCH DIFFERENT. AND ALSO QUITE OBVIOUSLY, WE WOULD HAVE TO CONFRONT THE SITUATION; WE WOULD HAVE TO ANALYZE THE HAZARDS; WE WOULD HAVE TO SELECT AN OPTION AND CARRY THAT OPTION OUT. BUT TODAY'S PRESIDENT

WOULD HAVE A MUCH TOUGHER DECISION TO MAKE THAN DID OUR 1962 PRESIDENT.

I SPOKE A MOMENT AGO ABOUT THE VAST BUILDUP OF SOVIET ARMS OVER THE PAST TWO DECADES. THIS VAST BUILDUP OF MILITARY MEN AND EQUIPMENT WAS MADE POSSIBLE BY A NATIONAL POLICY THAT HAS CONSISTENTLY MADE MILITARY MATERIAL PRODUCTION THE VERY HIGHEST NATIONAL PRIORITY.

UNDERLYING SOVIET MILITARY POWER IS A VAST AND COMPLEX INDUSTRIAL BASE WHICH HAS BEEN DESIGNED FOR AND IS DEDICATED TO THE FURTHERANCE OF SOVIET ABILITY TO WAGE WAR. FOR DECADES, SOVIET INDUSTRY HAS MANUFACTURED A BROAD SPECTRUM OF WEAPONRY AND MILITARY SUPPORT EQUPMENT IN STAGGERING QUANTITIES. THE MEMBERS OF THIS SUBCOMMITTEE ARE CERTAINLY WELL AWARE OF THE STATISTICS SO I DO NOT NEED TO DISPLAY THEM HERE.

UNFORTUNATELY, WE FACE AN ADVERSARY WHOSE LEADERS UNDERSTAND FULL WELL THE MILITARY VALUE OF A STRONG INDUSTRIAL BASE AND HAVE TAKEN ACTION TO ASSURE THAT SUCH A BASE IS MAINTAINED. I MUST SAY THAT WE ALSO HAVE MANY HERE IN THE UNITED STATES IN LEADERSHIP ROLES WHO RECOGNIZE THE DANGER OF A DETERIORATING INDUSTRIAL BASE.

IN THE PAST FEW YEARS, A NUMBER OF CONGRESSIONAL COMMITTEES HAVE WARNED THAT THE US INDUSTRIAL BASE HAD DETERIORATED TO THE POINT THAT NATIONAL SECURITY WAS IN JEOPARDY. THE REPORT BY THE DEFENSE INDUSTRIAL BASE PANEL OF THE HOUSE ARMED SERVICES COMMITTEE SAID THAT AN ALARMING EROSION OF CRUCIAL INDUSTRIAL SEGMENTS OF OUR ECONOMY, COUPLED WITH A MUSHROOMING DEPENDENCE ON FOREIGN SOURCES FOR CRITICAL MATERIALS, IS ENDANGERING OUR INDUSTRIAL POSTURE AT ITS VERY FOUNDATION.

BUT WE STILL HAVE MUCH OF OUR DEFENSE-CRITICAL BASIC INDUSTRY ON THE DOWNHILL SLIDE TO PERDITION.

WE ARE OVERWHELMINGLY DEPENDENT ON FOREIGN SOURCES FOR OUR SUPPLY OF MANY MANY MINERALS WHICH ARE ABSOLUTELY CRITICAL TO DEFENSE. AND OUR MAIN SOURCE OF SUPPLY FOR MOST OF THESE CRITICAL MINERALS IS ONE OF THE MOST UNSTABLE AREAS OF THE WORLD--PLACES LIKE ZAIRE, ZAMBIA, BOTSWANA, ZIMBABWE, GABON, GUYANA, ETC.

OUR MINING INDUSTRY IS SICK AND GETTING SICKER; OUR MINERALS PROCESSING INDUSTRY IS SICK AND GETTING SICKER. IF CURRENT TRENDS CONTINUE, I DOUBT SERIOUSLY WHETHER WE WILL HAVE A SMELTING INDUSTRY OF ANY CONSEQUENCE IN ANOTHER DECADE. OUR MACHINE TOOL INDUSTRY HAS BEEN GOING STEADILLY DOWNHILL FOR A NUMBER OF YEARS; OUR INDUSTRIAL FASTENER INDUSTRY LIKEWISE; AND THE CONTINUING TROUBLES IN THE STEEL INDUSTRY ARE VERY FAMILIAR TO THIS SUBCOMMITTEE.

ALL OF THESE INDUSTRIES ARE ABSOLUTELY BASIC TO OUR LONG TERM SECURITY POSTURE. AND NONE IS MORE BASIC THAN STEEL. VIRTUALLY EVERY MAJOR HARDWARE SYSTEM BUILT FOR OUR DEFENSE FORCES STARTS WITH STEEL AS THE PRIMARY INGREDIENT. APPLICATIONS OF STEEL IN DEFENSE RANGE FROM A FEW POUNDS OF VERY SOPHISTICATED ALLOYS IN SPACECRAFT TO TONS OF PLATE FOR THE HULL AND OTHER COMPONENTS OF A WARSHIP OR TANK.

FROM THE PROSAIC TO THE EXOTIC--FROM FUEL DRUMS TO BLACK BOXES FOR ELECTRONIC GEAR TO INTERCONTINENTAL MISSILES--STEEL IS ESSENTIAL TO MILITARY PREPAREDNESS. ORDINARY JET ENGINES CONTAIN UP TO TEN DIFFERENT TYPES OF STEEL. SUPER-THIN STEEL WIRES GUIDE THE TOW ANTI-TANK MISSILE TO ITS TARGET. MORE THAN HALF A TON OF STEEL IS REQUIRED TO MAKE OUR AIR FORCE F-15 FIGHTER AIRCRAFT. WHETHER AN ENEMY IS ENGAGED ON LAND, ON THE SEA, IN THE AIR, OR IN SPACE, STEEL IS AN ESSENTIAL PART OF THE WEAPONS USED. IT IS THE UBIQUITOUS MATERIAL ON ANY BATTLEFIELD.

AND, AS THE SAYING GOES, ARMIES MAY TRAVEL ON THEIR STOMACHS; BUT THEY AND THEIR STOMACHS MUST TRAVEL ON ROADS, BRIDGES, TRUCKS, BUSSES, TRAINS, SHIPS, TANKS, AND AIRCRAFT--ALL DEPENDENT FOR THEIR CONSTRUCTION UPON STEEL IN ONE FORM OR ANOTHER.

AND SPEAKING OF HIGHWAYS AND BRIDGES, DATA RECENTLY RELEASED BY THE FEDERAL HIGHWAY ADMINISTRATION REVEALS THAT OUR INTERSTATE HIGHWAY SYSTEM IS DETERIORATING AT THE RATE OF 2000 MILES PER YEAR AND THAT THE DECAY RATE IS WORSE FOR STATE AND COUNTY ROADS. THE REPORT ALSO SHOWED THAT 248,537 BRIDGES OUT OF A TOTAL OF 557,516 THAT IT INVENTORIED ARE "STRUCTURALLY DEFICIENT" OR "FUNCTIONALLY OBSOLETE". "STRUCTURALLY DEFICIENT" BRIDGES ARE RESTRICTED TO LIGHT TRAFFIC ONLY WHILE "FUNCTIONALLY OBSOLETE" BRIDGES HAVE DECK WIDTHS, VERTICAL CLEARANCE, OR SOME OTHER PROBLEM WHICH RENDER THEM UNSUITABLE FOR MODERN INTERSTATE TRUCK TRAFFIC. THEY CALCULATED THAT IT WOULD REQUIRE 287 YEARS TO REPLACE OR REPAIR ALL THOSE BRIDGES AT THE RATE OF THE PAST DECADE. AND IN THOSE 287 YEARS, THE REST OF THE BRIDGES WOULD DECAY, AS WOULD MOST OF THE ONES REPAIRED OR REPLACED.

THE CORPS OF ENGINEERS HAS FOUND THAT 8,794 DAMS IN THIS COUNTRY POSE A HAZARD TO LIFE AND PROPERTY. THEY ALSO FOUND THAT 56 OF 184 LOCKS IN USE ON OUR INLAND WATERWAYS ARE OBSOLETE AND SHOULD BE REPLACED. WATER TRANSPORTATION OF THINGS IN HIGHLY EFFICIENT AND COST EFFECTIVE. FOR INSTANCE, A TON OF TACONITE CAN BE HAULED 800 MILES FROM THE MESABI REGION OF MINNESOTA TO STEEL MILLS IN OHIO FOR THE COST OF A SINGLE CARTON OF CIGARETTES. THIS ASTOUNDING EFFICIENCY IS MADE POSSIBLE THROUGH THE USE OF WHAT IS KNOWN AS A "POE-CLASS BULKER" WHICH GETS ITS NAME FROM THE POE LOCK AT SAULT STE. MARIE, MICHIGAN. THESE POE CLASS VESSELS RANGE IN LENGTH FROM 767 FEET TO 1010.5 FEET AND CAN CARRY FROM 30,000 TO 62,000 GROSS TONS. THERE ARE CURRENTLY 25

SUCH VESSELS IN SERVICE ON THE GREAT LAKES WHICH TOGETHER CAN MOVE 1,165,000 TONS OF CARGO IN A SINGLE VOYAGE.

BUT THESE FINE VESSELS HAVE AN ACHILLES HEEL--THE LOCK FOR WHICH THEY ARE NAMED. THEY ARE SO LARGE THAT THEY CAN ONLY TRANSIT THE POE LOCK WHEN THEY ARE ENGAGED IN THE "HEAD OF THE LAKES" TRADE. EITHER THEIR LENGTHS AND/OR BEAMS KEEP THEM FROM USING THE DAVIS, SABIN, AND MCARTHUR LOCKS.

IF THE POE LOCK WERE SHUT DOWN FOR ANY REASON DURING A NATIONAL EMERGENCY SITUATION REQUIRING A STEEL PRODUCTION INCREASE, WE WOULD BE IN SERIOUS TROUBLE. THE CORPS OF ENGINEERS RECOGNIZES THIS AND HAS PLACED THE CONSTRUCTION OF A SECOND POE SIZED LOCK HIGH ON THEIR PRIORITY LIST. BUT IT IS NOT YET AUTHORIZED OR FUNDED.

OBVIOUSLY, IN THE EVENT OF A MOBILIZATION OR NATIONAL EMERGENCY, WE WOULD NEED ALL THOSE HIGHWAYS, BRIDGES, AND WATERWAYS. ALSO OBVIOUSLY, A LOT OF STEEL IS REQUIRED TO REPAIR OR REPLACE THEM.

IF THAT IS SO--AND IT IS--THEN HOW CAN WE CONTEMPLATE ALLOWING THAT INDUSTRY TO CONTINUE TO GO DOWNHILL? THERE ARE THOSE WHO ASSERT THAT FRIENDS AND ALLIES LIKE JAPAN, KOREA, WEST GERMANY, AND OTHERS WOULD SUPPLY ANY SHORTFALLS IN BASIC PROCESSED MATERIALS-LIKE STEEL-THAT OCCURRED DUE TO INCREASED USE BY DEFENSE. THESE PEOPLE TELL US THAT WE SHOULD NOT WORRY SO MUCH ABOUT "THE EFFICIENT CONSOLIDATION" OF SOME OF OUR SMOKESTACK INDUSTRIES--OR OTHER INDUSTRIES, FOR THAT MATTER. IN THEIR OPINION, THE WORLD MARKETPLACE SHOULD DETERMINE WHICH COUNTRY PRODUCES WHICH PRODUCTS MOST EFFICIENTLY AND WE SHOULD NOT FIGHT THAT DETERMINATION UNLESS IT IS VERY CLEARLY IN THE NATIONAL INTEREST TO DO SO. FOR INSTANCE,THERE IS A RATHER WIDESPREAD FOLKLORE THAT HOLDS THAT WE MIGHT BE MUCH BETTER OFF TO CONCENTRATE ON HIGH TECHNOLOGY CONTENT INDUSTRIES, SINCE WE ARE STILL THE WORLD LEADER IN TECHNOLOGY.

BUT, IN MY OPINION, THOSE PEOPLE ARE WRONG. HEALTHY AND VIABLE BASIC MATERIALS AND MATERIALS PROCESSING INDUSTRIES ARE VERY MUCH IN THE NATIONAL INTEREST. I ASK THAT YOU CONSIDER FOR A MOMENT THE POSSIBLE CONSEQUENCES OF A SITUATION WHERE OUR INDUSTRY IN GENERAL AND OUR DEFENSE INDUSTRY IN PARTICULAR SURVIVED AT THE WHIM OF OVERSEAS SUPPLIERS.

I CHALLENGE THE ASSERTION THAT SHORTFALLS IN BASIC MATERIALS COULD ALWAYS BE ACQUIRED FROM OUR FRIENDS AND ALLIES.

THE MEMBERS OF THIS SUBCOMMITTEE WILL CERTAINLY RECALL WHAT HAPPENED IN 1973 WHEN ALL OF OUR FRIENDS AND ALLIES WITH THE EXCEPTION OF PORTUGAL DENIED THE UNITED STATES LANDING RIGHTS FOR OUR C-5S AND C-141S WHICH WERE RE-SUPPLYING THE ISRAELIS IN THEIR WAR WITH THE MIDDLE EASTERN ARAB STATES.

WHY DID THEY DO THAT? VERY SIMPLE!! THEY CONSIDERED IT NOT TO BE IN THEIR NATIONAL INTEREST TO ASSIST THE UNITED STATES IN ASSISTING ISRAEL. WHY?? AGAIN, VERY SIMPLE!! THE THREAT THAT THEIR OIL SUPPLY FROM THE ARAB STATES WOULD BE SHUT OFF.

THERE ARE PROBABLY MANY WHO DO NOT REMEMBER THE SITUATION VIS-A-VIS OURSELVES AND OUR FRIENDS IN GREAT BRITAIN IN 1939. AT THAT TIME, STRANGELY ENOUGH, THE GENERAL SENSE OF CONGRESS WAS THAT IT WAS NOT IN OUR BEST INTERESTS TO PROVIDE ARMS AND OTHER WAR MATERIALS TO GREAT BRITAIN IN HER FIGHT WITH GERMANY. COMPROMISES WERE FINALLY WORKED OUT, AND WE DID, IN FACT, SUPPLY HUGE QUANTITIES OF WAR MATERIAL AND ARMS TO GREAT BRITAIN BEFORE OUR ENTRY INTO THE WAR THROUGH "CASH ON THE BARRELHEAD" SALES AND, LATER, THROUGH THE LEND LEASE PROGRAM. BUT THE POINT IS THAT, ALTHOUGH GREAT BRITAIN WAS OUR FRIEND, WE HAD CONSIDERABLE QUALMS ABOUT HELPING HER WITH THE MATERIALS SHE NEEDED TO SUCCESSFULLY PROSECUTE HER WAR WITH GERMANY. WE TEND TO FORGET THINGS LIKE THAT.

I'M NOT AT ALL CONFIDENT THAT ALL FRIENDS AND ALLIES, UPON WHOM WE ARE NOW OR MIGHT BECOME DEPENDENT UPON FOR SUPPLIES OF WAR MATERIALS LIKE STEEL FOR OUR DEFENSE INDUSTRY, WOULD ALWAYS AGREE THAT THEIR BEST INTERESTS COINCIDE WITH OURS.

AND THE POSSIBILITY OF THE SUPPLIERS OF SOME OF THE BASIC NECESSITIES OF DEFENSE PRODUCTION REFUSING TO SUPPLY US IS BY NO MEANS THE TOTALITY OF THE PROBLEM. THERE'S THE SUPPLY PIPELINE PROBLEM.

CONSIDER THE FACT THAT, ALTHOUGH THE UNITED STATES IS BY FAR THE WORLD'S LARGEST TRADING POWER AND OVER 90 PERCENT OF THAT TRADE IS BY SHIPS, LESS THAN 5 PERCENT OF ITS FOREIGN TRADE IS CARRIED IN U.S. BOTTOMS. U.S. SHIPS CARRY LESS THAN 2 PERCENT OF THE NON-FUEL MINERALS WE IMPORT AND ONLY 3 PERCENT OF OUR OIL IMPORTS. WE DON'T HAVE THE SHIPS IN OUR MERCHANT MARINE. WHAT IF THE COUNTRIES THAT OWN THE SHIPS DECIDE THAT THEY DON'T WANT TO PLAY BALL WITH US ANY MORE???

ALSO THERE IS ANOTHER VERY LARGE FACTOR TO BE CONSIDERED IN A SITUATION OF DEPENDENCY FOR MATERIALS WE MUST HAVE TO MAKE OUR DEFENSE INDUSTRY RUN. A SUPPLY DISRUPTION CAUSED BY ENEMY ACTION WOULD HAVE THE SAME GRAVE CONSEQUENCES AS IF OUR SUPPLIER DECIDED TO CUT OFF OUR SUPPLY. AND SUPPLY DISRUPTIONS THERE MOST SURELY WOULD BE. IT IS 7,500 MILES FROM OUR WEST COAST TO JAPAN AND 3,500 MILES FROM OUR EAST COAST TO EUROPE. THAT IS A VERY LONG AND VULNERABLE PIPELINE.

TO ILLUSTRATE MY POINT, IN 1942, ONE OUT OF EVERY 4 BAUXITE CARRYING SHIPS HEADING TO THE UNITED STATES FROM CARIBBEAN PORTS WAS SUNK BY GERMAN U-BOATSRIGHT IN OUR OWN BACKYARD. OUR ALUMINUM INDUSTRY WAS PLACED IN GRAVE JEOPARDY. AND

PLEASE NOTE THAT THE GERMANS DID THAT WITH MILITARY TECHNOLOGY THAT WAS STONE AGE VINTAGE COMPARED TO TODAY'S.

AS ANOTHER POINT, STEEL PRODUCTION FACILITIES IN ASIA AND WESTERN EUROPE WOULD BE MUCH MORE VULNERABLE TO CONVENTIONAL ARMS ATTACK THAN WOULD FACILITIES IN THE US. EVEN IF OUR FRIENDS WERE AGREEABLE TO SUPPLY OUR NEEDS, AS INDEED THEY MIGHT BE, COULD WE COUNT ON THOSE FACILITIES SURVIVING??? AND REMEMBER THAT ALL RAW MATERIAL AND FUEL FOR JAPAN'S STEEL MILLS AND KOREA'S STEEL MILLS HAS TO BE IMPORTED. THAT'S ANOTHER VULNERABILITY.

IT SEEMS AXIOMATIC THAT, EVEN IF WE CORRECT ALL OF OUR OTHER INDUSTRIAL ILLS, IF WE DON'T HAVE THE BASIC MATERIALS TO MAKE THAT INDUSTRY RUN, IT WON'T MATTER VERY MUCH.

WHAT TO DO?

WE'RE NOT LACKING IN NATIONAL POLICY.

THE NATIONAL SECURITY CLAUSE OF THE UNITED STATES TRADE LAWS REFLECTS THE LONGSTANDING POLICY AND SENSE OF CONGRESS THAT ANY ADVANTAGES FROM INTERNATIONAL TRADE DURING PEACETIME MUST BE SUBORDINATED TO REASONABLE PRECAUTIONS FOR NATIONAL SECURITY. THIS POLICY IS TOTALLY CONSISTENT WITH PREVAILING INTERNATIONAL LAW AND IS EXPRESSLY RECOGNIZED IN ARTICLE TWENTY-ONE OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE. INDEED, IT COULD HARDLY BE OTHERWISE, FOR NO OBLIGATION OF THE FEDERAL GOVERNMENT IS MORE IMPORTANT THAN THE ASSURANCE OF OUR NATIONAL SECURITY.

THE MINING AND MATERIALS POLICY ACT OF 1970 AFFIRMED THAT IT IS THE POLICY OF THE FEDERAL GOVERNMENT "TO FOSTER AND ENCOURAGE PRIVATE ENTERPRISE IN THE DEVELOPMENT OF ECONOMICALLY SOUND AND STABLE DOMESTIC INDUSTRIES."

THEN, IN 1980, CONGRESS PASSED AND THE PRESIDENT SIGNED THE NATIONAL MATERIALS AND MINERALS POLICY, RESEARCH AND DEVELOPMENT ACT OF 1980, WHICH STATES THAT IT IS THE POLICY OF THE US GOVERNMENT "TO PROMOTE AN ADEQUATE AND STABLE SUPPLY OF MATERIALS NECESSARY TO MAINTAIN NATIONAL SECURITY, ECONOMIC WELL BEING, AND INDUSTRIAL PRODUCTION."

AND THERE HAS BEEN A MUCH BROADER POLICY ON THE BOOKS FOR FOUR DECADES THAT WE MUST PREPARE IN PEACETIME FOR THE POSSIBILITY OF A FUTURE MILITARY CONFLICT. THAT POLICY WAS RESTATED IN JULY 1982 IN NATIONAL SCURITY DECISION DIRECTIVE NUMBER 47. IN FACT, NSDD 47 EXPRESSLY PROVIDES FOR INCREASING THE CAPABILITY OF INDUSTRY TO MEET NATIONAL SECURITY NEEDS THROUGH USE OF IMPORT AND EXPORT CONTROLS.

TITLE III OF THE DEFENSE PRODUCTION ACT OF 1950, AS AMENDED, PROVIDES A SOUND LEGAL BASIS FOR BUILD-UP OF INDUSTRIES CRITICAL TO NATIONAL DEFENSE, AND FOR GUARANTEED DEFENSE

MARKETS FOR OUTPUT FROM CRITICAL INDUSTRIES TO MAKE OR KEEP THEM VIABLE. IT WAS USED TO GREAT BENEFIT IN THE EARLY 1950S DURING THE KOREAN WAR. THE ACTIVITIES STARTED DURING THAT TIME UNDER DPA 1950 HAD SOME STARTLING RESULTS:

---ALUMINUM PRODUCTION WAS DOUBLED.

---COPPER MINING WAS EXPANDED BY 25%.

---THE TITANIUM INDUSTRY WAS CREATED.

---TUNGSTEN MINING WAS QUADRUPLED.

---MAGNESIUM PRODUCTION WAS INCREASED BY 160%.

---SUPPLIES OF NICKEL, TIN, URANIUM, COBALT, LEAD, ZINC, IRON, MANGANESE, MOLYBDENUM, AND 12 OTHER STRATEGIC MINERALS WERE INCREASED DRAMATICALLY.

IN SHORT, THE TOTAL MATERIALS INDUSTRY EXPANSION STARTED UNDER DPA 1950 DURING THE KOREAN WAR WAS VALUED AT $37 BILLION. AND ALL OF THAT WAS DONE WITH A TOTAL APPROPRIATION OF JUST UNDER $8.5 BILLION, MOST OF WHICH WAS NOT SPENT. IN FACT, AFTER ALL THE BILLS WERE TOTED UP, WE SPENT ONLY $851 MILLION.

DPA 1950 IS STILL ON THE BOOKS AND IS RECONFIRMED EACH YEAR, BUT WE'VE ONLY USED IT A VERY FEW TIMES IN THE LAST 25 YEARS. IN FACT, THERE HAS BEEN LITTLE IMPLEMENTATION OF ANY OF THESE POLICIES.

IN MY OPINION, WE DON'T NEED MORE POLICY; WHAT WE NEED IS MORE ACTION. WE NEED SOME IMPLEMENTATION OF SOME OF THE VERY FINE POLICY THAT SEVERAL CONGRESSES HAVE PASSED AND THAT SEVERAL PRESIDENTS, INCLUDING THE LAST FIVE, HAVE SIGNED.

I BELIEVE THE AMERICAN PEOPLE ARE AWARE OF A FUNDAMENTAL CRISIS IN MANY SEGMENTS OF OUR ECONOMY AND ARE READY TO SUPPORT MEASURES TO REVERSE THE TRENDS OF THE PAST SEVERAL YEARS.

I BELIEVE THE AMERICAN PEOPLE ARE READY TO SUPPORT SUCH ACTIONS AS THAT ENVISIONED BY THE FAIR TRADE IN STEEL ACT. THAT BILL OUGHT TO BE PASSED AND SIGNED INTO LAW.

WE NEED TO FIND MORE WAYS TO INCENTIVIZE CAPITAL FORMATION AND CAPITAL INVESTMENT IN R & D AND MODERN PLANT AND EQUIPMENT. EVERY OTHER COUNTRY IN THE INDUSTRIALIZED WESTERN WORLD HEAVILLY INCENTIVIZES THEIR INDUSTRY TO DO THESE THINGS THAT ARE TOTALLY IN THE NATIONAL INTEREST TO DO. THE CAPITAL COST RECOVERY ACT OF 1981 WAS A GOOD START, BUT WE NEED ADDITIONAL FOCUS IN AN AMENDMENT WHICH RECOGNIZES THE PLIGHT OF OUR BASIC MATERIALS INDUSTRIES.

WE HAVE TO RECOGNIZE THAT MOST PRIMARY INDUSTRIES IN OTHER INDUSTRIALIZED WESTERN NATIONS ARE, TO SOME EXTENT, SUBSIDIZED BY THEIR GOVERNMENTS. I DON'T BELIEVE THAT OUR STEEL INDUSTRY NEEDS OR WANTS DIRECT SUBSIDIES. AN EQUAL OPPORTUNITY TO COMPETE IS WHAT THEY NEED.

IN MY OPINION, THE PROBLEMS CURRENTLY BEING EXPERIENCED BY THE STEEL INDUSTRY AND OTHER BASIC INDUSTRIES ARE OF CRISIS PROPORTIONS. THEIR PROBLEMS ARE NOT NEW. THEY HAVE BEEN GROWING FOR SOME TIME. INDIVIDUALLY, EACH PROBLEM CHIPS AWAY AT OUR INDUSTRIAL BASE. COLLECTIVELY, THESE PROBLEMS THREATEN THE VERY FOUNDATION OF OUR INDUSTRIAL SECTOR, OUR NATIONAL ECONOMY, AND OUR NATIONAL DEFENSE. AND THE TIME TO CORRECT THEM IS NOW.

THANK YOU.

The CHAIRMAN. Thank you very much.

Now we have Mr. Frank Luerssen, the chairman of Inland Steel. We're delighted to have you here, Frank.

STATEMENT OF FRANK W. LUERSSEN, CHAIRMAN AND PRESIDENT, INLAND STEEL CO., CHICAGO, IL

Mr. LUERSSEN. Mr. Chairman, thank you for this opportunity to speak on behalf of the several constituencies of my company.

I'm Frank Luerssen, of the Inland Steel Co., the only major integrated steel producer headquartered in Chicago and operating the Western Hemisphere's largest steel manufacturing plant, located at East Chicago, IN.

My company is the fourth largest domestic steel producer, with nearly 29,000 employees, and I might observe that we became the fourth largest not because of expansion but because of contraction of our competitors.

I've spent virtually my entire career at Inland: in research, steel manufacturing and, since 1978, as a general executive.

Throughout its 91-year history, Inland has been basically a steel company. The integrated steel operations, along with the steel-related Joseph T. Ryerson Service Center and Inryco Construction Product subsidiaries, account for more than 95 percent of Inland's business.

Our past and current capital programs commit us fully to the steel business. Unlike many of our major competitors, we are not diversifying our resources away from steel, In fact, we are currently concentrating our assets in steel.

I reemphasize that because it bears significantly on what we have done with our resources and nullifies the claim of those critics who repeatedly suggest the cause of our difficulty stems from a lack of commitment to the steel business. Nothing is further from the truth where Inland Steel Co. is concerned.

Moreover, through much of its history, Inland has been recognized in the financial community and by other observers as one of the lowest-cost major steel producers anywhere. During the decade of the 1970's, Inland ranked first among domestic integrated steel producers both in terms of return on equity and on total investment.

In the late 1970's, Inland completed a major modernization and expansion program at an outlay of $1 billion, a commitment for its size that probably was the largest in the industry. For the decade of the 1970's, our expenditures totaled $1.8 billion.

After completing this expansion program, we suffered a serious reversal as the recession struck late in 1981, burdening us with our first full year of loss in 50 years.

The Nation's deep recession was transformed quickly into a steel depression. For those who don't follow us closely, Inland was subjected to nine consecutive deficit quarters as a severe decline in domestic consumption was deepened by a corresponding record deluge of steel imports. My colleague, Mr. Peabody, has thoroughly documented the figures.

Even at this moment, while the general economy is experiencing a very satisfactory recovery, steel continues to suffer from a lagging recoupment in the capital goods sector and from the unimpeded flood of dumped and subsidized imports.

Incidentally, the latest breakdown of imports indicates the influx into this midwestern region has been the largest for any sector of the Nation this year, a matter which we regard as most disturbing.

From its acknoweldged position as a profit-maker, Inland suffered the indignity of huge pretax losses for 2 successive years: $243 million in 1982 and $177 million in 1983, the yardstick which most accurately reflects the cash drain imposed upon our resources.

Instead of capital generation and continued aggressive investment in modernization which has been Inland's hallmark, we were forced to curtail our capital expenditures and resort to unique financial approaches.

The impact would have been even more severe had we not been engaged in the second year of a planned cost reduction program, which yielded permanent savings in excess of $200 million over those 2 years of losses.

The depression in our business necessitated additional sharp cutbacks in our work force, and our people experienced hardship and human suffering as the work force was reduced permanently by nearly 20 percent and thousands more were placed on layoff and short work weeks.

Steel facilities where shut down. Others were alternately operated and idled to reduce costs and all raw material sources sharply reduced their operations or were closed for varying periods.

The severe contraction in revenues curtailed our cash flow and forced Inland to resort to capital and debt markets to maintain its liquidity. I might add our people were nimble and innovative in this task, but inevitably those mandatory actions had a marked and unfavorable impact upon our capital structure.

In 1979, Inland had a relatively comfortable long-term debt and total capitalization ratio of 30 percent. By the end of last year, this had increased to 40 percent and, for some of our major competitors, to even more dramatic record levels.

We, as well as they, suffered the inevitable downgrading of credit rating. This, in turn, rendered financing less available and more expensive at a time when it was needed most urgently. The net effect was an acceleratingly negative spiral. Mr. Peabody already has painted the picture of red ink which marked the industry's performance over the past 2 years.

I bristle when I read our critics' assessment of this unfortunate run of recent history. We are subjected to allegations of stupidity, and not the record steel shipments to U.S. markets, which were the real cause of our economic distress.

Others, including important elements of the Reagan administration, would have the public believe that any legislative or administrative actions to level the playing field will upset our trading partners and lead to a surge of higher steel prices. Neither contention has any basis in fact.

But we must comprehend the realities of a world trade crisis bred by an international recession and effects of government control and subsidization which seek to dominate U.S. markets, the world's best steel market.

Clearly, our major customers face similar prolonged price compression and competition from abroad, as we do, and we have an obligation, as well as the determination in our own self-interest, to keep our domestic customers in business, lest they, too, are overwhelmed by uneconomic government-controlled programs abroad.

The key to preserving Inland's markets is to redouble our efforts at lowering our costs to provide customer products of the highest and world-competitive quality, coupling that value with reliability and prompt service and a close relationship with our customers. We have a good record in this regard, but we will do even better in the days and years ahead.

As I suggested at the outset, Inland has been noted for low-cost operations, high productivity, and extensive efforts at modernization and product innovation. Currently our cost reduction programs and product initiatives represent the vanguard of our dedication, but the present realities of world steel trade apply great pressure on the potential success of our strategy.

Mr. Chairman, I say to you in all candor, and with great misgivings about this Nation's reluctance to support its own industrial base, that the dice have been and continue to be loaded against us. Should the present inattention prevail, it's questionable whether any of our basic industries, steel most significantly, can remain invulnerable to unfair foreign competition over the long run. I do not mean to suggest imports are the whole problem, but their unimpeded flow could bring our industry down.

We estimate that over the past 5 years, imports have had the effect of reducing Inland's profits by from $650 to $850 million. Over this same period, Inland had reinvested all of its cash flow and resorted to borrowing and other financing innovations to pursue its modernization strategy, but it has been weakened in the process by the confrontation with unfair foreign competition.

Our future strategy requires us to pursue new programs, whose total costs would exceed $1 billion added to the $1.8 billion already spent. Our list of project priorities includes still another continuous caster to go with the two in operation and two more that are currently under construction, a new flat-product rolling mill of the most sophisticated design and cost-saving features existing anywhere in the world, an electrogalvanizing line to meet the emerging needs of our largest customers, as well as other improvements to existing cold-rolling and shaped-products mills.

As I stated earlier, our commitment to steel refutes the contention that we are not doing all we can to help our customers, ourselves or our employees. We have, as you know, made significant progress in holding our employment costs in line, although we acknowledge the need to do more in this area. Inland's productivity is equal to the best in the world, and we'll make further improvements in that key measurement of efficiency in the future if we can acquire the appropriate fiscal resources.

However, the generation of cash through a decent level of profitability and the avoidance of any substantial increase in the debt structure is a necessity if Inland is to be able to carry out plant expenditures to ensure its future competitiveness.

We have stated time and again that we plan to stake our future investments in steel on our ability to compete in our markets with anyone anywhere, provided, of course, there is a reasonable level of relief from dumped and subsidized steel imports.

Senator Percy, we are not competing on even terms. You know it, and most other knowledgeable people in Washington know it. The crucial question is: Will Washington help or won't it?

The Fair Trade in Steel Act of 1984 provides the most equitable solution, given the epidemic proportions of the problem. Mr. Peabody has provided a convincing rationale as to why that proposed 15-percent limit on steel imports over the next 5 years would be eminently fair to all concerned. More importantly, it would remove the odious inequity which now persists against our domestic steel industry.

There are more than sufficient safeguards to assure that the interim economic transfusion which the trade act's enactment would administer is, in fact, reinvested in steel to strengthen this Nation's steel industry for the long haul. As I've tried to suggest in these brief remarks, the Inland Steel Co. intends to put its money where it has been in the past: in steel.

Senator, I would close with this appeal, which I hope you will not consider impertinent. We desperately need and solicit your sponsorship for this trade act.

The Chicago steel district, which encompasses Illinois and Indiana, is where the greatest prospect for the future of domestic steel resides. And yet only one Senator from these two States, Alan Dixon, has become a cosponsor of the bill, thereby giving his full support to the steel industry and its employees in this battle to retain true competitiveness in world steel trade.

Thank you.

[Mr. Luerssen's prepared statement follows:]

REMARKS OF:

FRANK W. LUERSSEN
CHAIRMAN AND PRESIDENT
INLAND STEEL COMPANY, CHICAGO

MISTER CHAIRMAN.

THANK YOU FOR THIS OPPORTUNITY TO SPEAK ON BEHALF OF THE SEVERAL CONSTITUENCIES OF MY COMPANY. I'M FRANK LUERSSEN ... CHAIRMAN AND PRESIDENT OF THE INLAND STEEL COMPANY ... THE ONLY MAJOR INTEGRATED STEEL PRODUCER HEADQUARTERED IN CHICAGO ... AND OPERATING THE WESTERN HEMISPHERE'S LARGEST STEEL MANUFACTURING PLANT LOCATED AT EAST CHICAGO, INDIANA. MY COMPANY IS THE FOURTH LARGEST DOMESTIC STEEL PRODUCER WITH NEARLY 29,000 EMPLOYEES.

I'VE SPENT VIRTUALLY MY ENTIRE CAREER AT INLAND ... IN RESEARCH, STEEL MANUFACTURING, AND SINCE 1978 AS A GENERAL EXECUTIVE.

THROUGHOUT ITS 91-YEAR HISTORY, INLAND HAS BEEN BASICALLY A STEEL COMPANY. THE INTEGRATED STEEL OPERATIONS, ALONG WITH THE STEEL-RELATED JOSEPH T. RYERSON SERVICE CENTER, AND INRYCO CONSTRUCTION PRODUCT SUBSIDIARIES ACCOUNT FOR MORE THAN 95 PERCENT OF INLAND'S BUSINESS. OUR PAST AND CURRENT CAPITAL PROGRAMS COMMIT US FULLY TO THE STEEL BUSINESS. UNLIKE MANY OF OUR MAJOR COMPETITORS, WE ARE NOT DIVERSIFYING OUR RESOURCES AWAY FROM STEEL. IN FACT, WE ARE CURRENTLY CONCENTRATING OUR ASSETS IN STEEL. I REEMPHASIZE THAT BECAUSE IT BEARS SIGNIFICANTLY ON WHAT WE HAVE DONE WITH OUR RESOURCES, AND NULLIFIES THE CLAIM OF THOSE CRITICS WHO REPEATEDLY SUGGEST THE CAUSE OF OUR DIFFICULTIES STEMS FROM A LACK OF COMMITMENT TO THE STEEL BUSINESS. NOTHING IS FURTHER FROM THE TRUTH WHERE INLAND IS CONCERNED.

MOREOVER, THROUGH MUCH OF ITS HISTORY, INLAND HAS BEEN RECOGNIZED IN THE FINANCIAL COMMUNITY AND BY OTHER OBSERVERS AS ONE OF THE LOWEST COST MAJOR STEEL PRODUCERS ANYWHERE. DURING THE DECADE OF THE SEVENTIES ... INLAND RANKED FIRST AMONG DOMESTIC INTEGRATED STEEL PRODUCERS BOTH IN TERMS OF RETURN ON EQUITY AND TOTAL INVESTMENT. IN THE LATE SEVENTIES INLAND COMPLETED A MAJOR MODERNIZATION AND EXPANSION PROGRAM AT AN OUTLAY OF $1.0 BILLION -- A COMMITMENT FOR ITS SIZE THAT PROBABLY WAS THE LARGEST IN THE INDUSTRY. FOR THE DECADE OF THE SEVENTIES, OUR EXPENDITURES TOTALED $1.8 BILLION. AFTER COMPLETING THIS EXPANSION PRORAM WE SUFFERED A SERIOUS REVERSAL AS THE RECESSION STRUCK LATE IN 1981, BURDENING US WITH OUR FIRST FULL YEAR LOSS IN 50 YEARS.

THE NATION'S DEEP RECESSION WAS TRANSFORMED QUICKLY INTO A STEEL "DEPRESSION." FOR THOSE WHO DON'T FOLLOW US CLOSELY ... INLAND WAS SUBJECTED TO NINE CONSECUTIVE DEFICIT QUARTERS AS THE SEVERE DECLINE IN DOMESTIC CONSUMPTION WAS DEEPENED BY A CORRESPONDING RECORD DELUGE OF STEEL IMPORTS. MY COLLEAGUE, MR. PEABODY, HAS THOROUGHLY DOCUMENTED THE FIGURES. EVEN AT THIS MOMENT, WHILE THE GENERAL ECONOMY IS EXPERIENCING A VERY SATISFACTORY RECOVERY, STEEL CONTINUES TO SUFFER FROM A LAGGING RECOUPMENT IN THE CAPITAL GOODS SECTOR, AND FROM THE UNIMPEDED FLOOD OF DUMPED AND SUBSIDIZED IMPORTS. INCIDENTALLY, THE LATEST BREAKDOWN OF IMPORTS INDICATES THE INFLUX INTO THIS MIDWESTERN REGION HAS BEEN THE LARGEST FOR ANY SECTOR OF THE NATION THIS YEAR -- A MATTER WHICH WE REGARD AS MOST DISTURBING.

FROM ITS ACKNOWLEDGED PREVIOUS POSITION AS A PROFIT-MAKER, INLAND SUFFERED THE INDIGNITY OF HUGE PRE-TAX LOSSES FOR TWO SUCCESSIVE YEARS: $243 MILLION IN 1982, AND $177 MILLION IN 1983 ... THE YARDSTICK WHICH MOST ACCURATELY REFLECTS THE CASH DRAIN IMPOSED UPON OUR RESOURCES. INSTEAD OF CAPITAL GENERATION AND THE CONTINUED, AGGRESSIVE INVESTMENT IN MODERNIZATION WHICH HAS BEEN INLAND'S HALLMARK, WE WERE FORCED TO CURTAIL OUR CAPITAL EXPENDITURES AND RESORT TO UNIQUE FINANCIAL APPROACHES.

THE IMPACT WOULD HAVE BEEN EVEN MORE SEVERE HAD WE NOT BEEN ENGAGED IN THE SECOND YEAR OF A PLANNED COST-REDUCTION PROGRAM WHICH YIELDED PERMANENT SAVINGS IN EXCESS OF $200 MILLION OVER THOSE TWO YEARS OF LOSSES. THE DEPRESSION IN OUR BUSINESS NECESSITATED ADDITIONAL SHARP CUTBACKS IN OUR WORKFORCE, AND OUR PEOPLE EXPERIENCED HARDSHIP AND HUMAN SUFFERING AS THE WORKFORCE WAS REDUCED PERMANENTLY BY NEARLY 20 PERCENT AND THOUSANDS MORE WERE PLACED ON SHORT WORK WEEKS. STEEL FACILITIES WERE SHUT DOWN; OTHERS WERE ALTERNATELY OPERATED AND IDLED TO REDUCE COSTS, AND ALL RAW MATERIALS SOURCES SHARPLY REDUCED THEIR OPERATIONS OR WERE CLOSED FOR VARYING PERIODS.

THE SEVERE CONTRACTION IN REVENUES CURTAILED OUR CASH FLOW AND FORCED INLAND TO RESORT TO CAPITAL AND DEBT MARKETS TO MAINTAIN ITS LIQUIDITY. I MIGHT ADD, OUR PEOPLE WERE NIMBLE AND INNOVATIVE IN THIS TASK, BUT INEVITABLY THOSE MANDATORY ACTIONS HAD A MARKED AND UNFAVORABLE IMPACT UPON OUR CAPITAL STRUCTURE.

IN 1979, INLAND HAD A RELATIVELY COMFORTABLE LONG-TERM DEBT TO TOTAL CAPITALIZATION RATIO OF 30 PERCENT. BY THE END OF LAST YEAR, THIS HAD INCREASED TO 40 PERCENT, AND FOR SOME OF OUR MAJOR COMPETITORS TO EVEN MORE DRAMATIC RECORD LEVELS. WE, AS WELL AS THEY, SUFFERED THE INEVITABLE DOWNGRADING OF CREDIT RATINGS. AND THIS, IN TURN, RENDERED FINANCING LESS AVAILABLE AND MORE EXPENSIVE AT A TIME WHEN IT WAS NEEDED MOST URGENTLY. THE NET EFFECT WAS AN ACCELERATING NEGATIVE SPIRAL. MR. PEABODY ALREADY HAS PAINTED THE PICTURE OF RED INK WHICH MARRED THE INDUSTRY'S PERFORMANCE OVER THE PAST TWO YEARS.

I BRISTLE WHEN I READ OUR CRITICS' ASSESSMENT OF THIS UNFORTUNATE RUN OF RECENT HISTORY. WE ARE SUBJECTED TO ALLEGATIONS OF STUPIDITY, AND NOT THEIR RECORD STEEL SHIPMENTS TO U.S. MARKETS, WHICH WERE THE REAL CAUSE OF OUR ECONOMIC DISTRESS. AND OTHERS, INCLUDING IMPORTANT ELEMENTS OF THE REAGAN ADMINISTRATION, WOULD HAVE THE PUBLIC BELIEVE THAT ANY LEGISLATIVE OR ADMINISTRATIVE ACTIONS TO LEVEL THE PLAYING FIELD WILL UPSET OUR TRADING PARTNERS AND LEAD TO A SURGE OF HIGHER STEEL PRICES. NEITHER CONTENTION HAS ANY BASIS IN FACT.

BUT WE MUST COMPREHEND THE REALITIES OF A WORLD TRADE CRISIS BRED BY AN INTERNATIONAL RECESSION AND THE EFFECTS OF GOVERNMENTAL CONTROL AND SUBSIDIZATION, WHICH SEEKS TO DOMINATE U.S. MARKETS -- THE WORLD'S BEST MARKETS.

CLEARLY, OUR MAJOR CUSTOMERS FACE SIMILAR PROLONGED PRICE COMPRESSION AND COMPETITION FROM ABROAD AS WE DO. AND, WE HAVE AN OBLIGATION -- AS WELL AS THE DETERMINATION IN OUR OWN SELF-INTEREST -- TO KEEP OUR DOMESTIC CUSTOMERS IN BUSINESS, LEST THEY TOO ARE OVERWHELMED BY UNECONOMIC, GOVERNMENT CONTROLLED PROGRAMS ABROAD. THE KEY TO PRESERVING INLAND'S MARKETS IS TO REDOUBLE OUR EFFORTS AT LOWERING OUR COSTS, TO PROVIDE CUSTOMER PRODUCTS OF THE HIGHEST AND WORLD COMPETITIVE QUALITY, COUPLING THAT VALUE WITH RELIABILITY OF PROMPT SERVICE AND A CLOSE RELATIONSHIP WITH OUR CUSTOMERS. WE HAVE A GOOD RECORD IN THIS REGARD, BUT WE WILL DO EVEN BETTER IN THE DAYS AND YEARS AHEAD.

AS I SUGGESTED AT THE OUTSET, INLAND HAS BEEN NOTED FOR LOW COST OPERATIONS, HIGH PRODUCTIVITY, AND EXTENSIVE EFFORTS AT MODERNIZATION AND PRODUCT INNOVATION. CURRENTLY, OUR COST REDUCTION PROGRAMS AND PRODUCT INITIATIVES REPRESENT THE VANGUARD OF OUR DEDICATION. BUT THE PRESENT REALITIES OF WORLD STEEL TRADE APPLY GREAT PRESSURE ON THE POTENTIAL SUCCESS OF OUR STRATEGY.

MISTER CHAIRMAN, I SAY TO YOU IN ALL CANDOR, AND WITH GREAT MISGIVINGS ABOUT THIS NATION'S RELUCTANCE TO SUPPORT ITS OWN INDUSTRIAL BASE, THAT THE DICE HAVE BEEN AND CONTINUE TO BE LOADED AGAINT US. SHOULD THE PRESENT INATTENTION PREVAIL, IT'S QUESTIONABLE WHETHER ANY OF OUR BASIC INDUSTRIES -- STEEL MOST SIGNIFICANTLY -- CAN REMAIN INVULNERABLE TO UNFAIR FOREIGN COMPETITION OVER THE LONG RUN. I DO NOT MEAN TO SUGGEST IMPORTS ARE THE WHOLE PROBLEM; BUT THEIR UNIMPEDED FLOW COULD BRING OUR INDUSTRY DOWN.

WE ESTIMATE THAT OVER THE PAST FIVE YEARS, IMPORTS HAVE HAD THE EFFECT OF REDUCING INLAND'S PROFITS BY $650 MILLION TO $850 MILLION. OVER THIS SAME PERIOD, INLAND HAS REINVESTED ALL OF ITS CASH FLOW AND RESORTED TO BORROWING AND OTHER FINANCING INNOVATIONS TO PURSUE ITS MODERNIZATION STRATEGY, BUT HAS BEEN WEAKENED IN THE PROCESS BY THE CONFRONTATION FROM UNFAIR FOREIGN COMPETITION.

OUR FUTURE STRATEGY REQUIRES US TO PURSUE NEW PROGRAMS WHOSE TOTAL COST WOULD EXCEED $1 BILLION, ADDED TO THE $1.8 BILLION ALREADY SPENT. OUR LIST OF PROJECT PRIORITIES INCLUDES STILL ANOTHER CONTINUOUS CASTER TO GO WITH THE TWO IN OPERATION AND TWO MORE THAT ARE CURRENTLY UNDER CONSTRUCTION; A NEW FLAT PRODUCT ROLLING MILL OF THE MOST SOPHISTICATED DESIGN AND COST-SAVING FEATURES EXISTING ANYWHERE IN THE WORLD; AN ELECTROGALVANIZING LINE TO MEET THE EMERGING NEEDS OF OUR LARGEST CUSTOMERS, AS WELL AS OTHER IMPROVEMENTS TO EXISTING COLD ROLLING AND SHAPE PRODUCT MILLS.

AS I STATED EARLIER, OUR COMMITMENT TO STEEL REFUTES THE CONTENTION THAT WE ARE NOT DOING ALL WE CAN TO HELP OUR CUSTOMERS, OURSELVES AND OUR EMPLOYEES. WE HAVE, AS YOU KNOW, MADE SIGNIFICANT PROGRESS IN HOLDING OUR EMPLOYMENT COSTS IN LINE, ALTHOUGH WE ACKNOWLEDGE THE NEED TO DO MORE IN THIS AREA. INLAND'S PRODUCTIVITY IS THE EQUAL OF THE BEST IN THE WORLD, AND WE'LL MAKE FURTHER IMPROVEMENTS IN THAT KEY MEASUREMENT OF EFFICIENCY IN THE FUTURE, IF WE CAN ACQUIRE THE APPROPRIATE PHYSICAL RESOURCES.

HOWEVER, THE GENERATION OF CASH THROUGH A DECENT LEVEL OF PROFITABILITY, AND THE AVOIDANCE OF ANY SUBSTANTIAL INCREASE IN THE DEBT STRUCTURE, IS A NECESSITY IF INLAND IS TO BE ABLE TO CARRY OUT PLANNED EXPENDITURES TO ASSURE ITS FUTURE COMPETITIVENESS. WE HAVE STATED TIME AND AGAIN THAT WE PLAN TO STAKE OUR FUTURE INVESTMENTS IN STEEL ON OUR ABILITY TO COMPETE IN OUR MARKET WITH ANYONE, ANYWHERE -- PROVIDED, OF COURSE, THERE IS REASONABLE LEVEL OF RELIEF FROM DUMPED AND SUBSIDIZED STEEL IMPORTS. SENATOR PERCY, WE'RE NOT COMPETING ON EVEN TERMS. YOU KNOW IT, AND MOST OTHER KNOWLEDGEABLE PEOPLE IN WASHINGON KNOW IT. THE CRUCIAL QUESTION IS ... WILL WASHINGTON HELP ... OR WON'T IT?

THE FAIR TRADE IN STEEL ACT OF 1984 PROVIDES THE MOST EQUITABLE SOLUTION, GIVEN THE EPIDEMIC PROPORTIONS OF THE PROBLEM. MR. PEABODY HAS PROVIDED A CONVINCING RATIONALE AS TO WHY THAT PROPOSED 15 PERCENT LIMIT ON STEEL IMPORTS OVER THE NEXT FIVE YEARS WOULD BE EMINENTLY FAIR TO ALL CONCERNED. MORE IMPORTANTLY, IT WOULD REMOVE THE ODIOUS INEQUITY WHICH NOW PERSISTS AGAINST OUR DOMESTIC STEEL INDUSTRY.

THERE ARE MORE THAN SUFFICIENT SAFEGUARDS TO ASSURE THAT THE INTERIM ECONOMIC TRANSFUSION WHICH THE TRADE ACT'S ENACTMENT WOULD ADMINISTER IS IN FACT REINVESTED IN STEEL TO STRENGTHEN THIS NATION'S INDUSTRY FOR THE LONG HAUL. AS I'VE TRIED TO SUGGEST IN THESE BRIEF REMARKS, THE INLAND STEEL COMPANY INTENDS TO PUT ITS MONEY WHERE IT HAS IN THE PAST -- IN STEEL.

SENATOR ... I WOULD CLOSE WITH THIS APPEAL WHICH I HOPE YOU WILL NOT CONSIDER IMPERTINENT. WE DESPERATELY NEED AND SOLICIT YOUR SPONSORSHIP FOR THE TRADE ACT. THE CHICAGO STEEL DISTRICT, WHICH ENCOMPASSES ILLINOIS AND INDIANA, IS WHERE THE GREATEST PROSPECT FOR THE FUTURE OF DOMESTIC STEEL RESIDES. AND YET, ONLY ONE SENATOR FROM THESE TWO STATES -- ALAN DIXON -- HAS BECOME A CO-SPONSOR OF THE BILL, THEREBY GIVING HIS FULL SUPPORT TO THE STEEL INDUSTRY AND ITS EMPLOYEES IN THIS BATTLE TO RETAIN TRUE COMPETITIVENESS IN WORLD STEEL TRADE.

THANK YOU.

Mr. CHAIRMAN. I can tell you why I have not: I wanted to have this hearing, which I promised South Chicago a couple months ago, and felt it important that we do have it.

One question I'd like to ask you, Mr. Luerssen, because you have stayed right in the steel industry more so than any other company and you have faith in the future of it.

Do you feel, as a result of, say, the recession and depression, almost, in the steel industry, that you'll ever get back to where the steel industry will be employing as many people as it did before?

Having gone through four recessions as an industrialist, every time the economic circumstances require us to increase productivity, find ways to get more done with less cost, is it realistic for all the unemployed steel workers to feel that ultimately the steel industry would, even with, say, passage of this legislation, get back to the point where it would rehire everyone in the steel business?

I ask the question because I just announced down at Prairie State University a half-million-dollar grant that I have helped them get from the Department of Labor to retrain unemployed steel workers into professions where skills are definitely in short supply right now and where they could go out directly from that training program and probably get a job.

Would you care to respond to that?

Mr. LUERSSEN. Mr. Chairman, I think it would take a very unusual circumstance, such as world war or something like that, to bring back all the steel workers that have been laid off and lost their jobs as a result of the recession and this world steel trade problem.

I feel that in many areas of the country and in many steel plants, there are facilities of such obsolescence that they could not be beneficially started up again.

That does not mean that we should not do what we can to protect those jobs that still exist, and that's what we're after.

Our efforts at improving productivity will, over time, reduce our work forces as well, but those will be by attrition and they will not cause the traumatic effects experienced over the last 2 years by our work forces.

The **Chairman**. Thank you.

I think this program ought to be looked at carefully as a means of adjusting and shifting ourselves. Certainly when the refrigerator came in, you couldn't stay in the ice business, and people in that business had to shift and move. There may be the necessity to move, but we hope the unemployment will be partially solved by a strengthening of the American steel industry.

Mr. Peabody, on a slightly different subject, antidumping and countervailing duty cases have resulted in restraints being imposed upon steel imports from Europe. The section 201 action resulted in Japanese voluntary restraints, and you are beginning to get results with the LDC's because of the ongoing 201 petition.

How can you say that our trade laws have not been at all effective?

Mr. **Peabody**. I'll respond first precisely to the question you put, and I'm underscoring the words "at all."

Clearly they have been to some degree effective, Senator. As Mr. Holmer observed, under the compulsion of literally hundreds of dumping and countervailing duty cases, the Commerce Department did process them, there were findings, and there have been results. So there's no question that the dumping and countervailing duty laws have to some degree worked.

But if you pull back and look at it, Senator, a step or two away, you see kind of an extraordinary thing. We have, in the Commerce Department today, probably the most aggressive enforcement of the trade laws of any administration in history, I guess, and what's been the situation?

Growth of imported steel dumped and subsidized into the United States. It's kind of astonishing. It's like squeezing on mercury: You push down here, and it pops up there.

There's in the nature of a 50-percent increase in steel import penetration into this country in the last 3½, 4 years, and I'd suggest to you it is essentially coming from dumped and subsidized producers, government controlled.

So if you rack up and test the unfair trading laws against success, we sure haven't had much success in solving the problem, Senator. We've had the Department of Commerce hire 75 or 80 additional people to work on this project, but it isn't succeeding.

The other half of the point I'd like to make, Senator, is this: We have to live in the real world, as is unfortunately the case. The real world is a little different out there than you and I learned in high school and college economics, particularly in respect to trade in steel.

We have these dumping and countervailing duty settlements with the European Community. They are to expire December 31, 1985. We have whatever in heaven's name it is we have with the Japanese. Whatever it is, it's apparently voluntary.

We have whatever we have with the Mexicans and the South Africans mentioned by Mr. Holmer; totally voluntary, just like the Japanese. They can switch it off if they want. They can switch it on if they want. We have dumping and countervailing duty cases brought against the Koreans.

It's almost worth an hour's lecture, Senator, to think about getting evidence out of a military dictatorship that considers its steel production forecasts to be a state secret.

How do you get, as a private enterprise company, that information in order to make your case to the Department of Commerce?

The CHAIRMAN. As you know, I've been very sympathetic about the problem. I've called this a global problem, not just a U.S. problem.

Mr. PEABODY. Yes, sir.

The CHAIRMAN. I'm sympathetic with the problems that you're up against—government-owned plants and controlled policies in other countries—and we're supposed to operate a free market here.

But what I'm trying to determine is: How much should the Federal Government and this country get into the steel business?

We saw France deep in it, and then when France tried to adjust to reality and adjust to the market, they practically had a revolution on their hands. We've seen Great Britain and Japan get deeply involved in government in the steel industry.

My question to you is: Is the domestic steel industry suggesting that we follow the pattern of our foreign competitors, such as I have mentioned, and thus have our Government interfere extensively in the U.S. market for steel?

Mr. PEABODY. Heaven help us if that happens, Senator. We are in deep, deep, serious trouble as an industry now. It will be compounded if the Government takes the industry over.

What is needed, however, first of all, is a sense of awareness of the world as it actually exists and not as high school and college economics taught it.

Second, is the realization that through our Government is the only way we can respond to actions of foreign governments. I am not about to go to jail, Senator, negotiating with foreign governments or foreign steel companies. The U.S. Government has, under our system, that responsibility.

The CHAIRMAN. You wouldn't want to send Jesse Jackson over there? [Laughter.]

Mr. PEABODY. Well, I have the highest respect for success, and he's doing pretty well so far, Senator.

Our need is to get the U.S. Government to accept that other governments are operating in their national interests to the detriment of ours. We think the quota bill is the best current way to cause that to happen.

The CHAIRMAN. I thank you very much.

Mr. LUERSSEN. Senator, may I make just one comment that was suggested by one of those who testified for the Government, that one solution to the problem in our industry is restructuring, something similar to the J&L-type mergers?

I would suggest to you what I suggested to our board of directors: that this might be a road that we should look at more seriously in our company.

They responded to me, "Well, why do you want to take on all the problems of these other companies that have more obsolescent facilities than you have? Why don't you build something new?"

My own feeling about the future of my company is that I want to have in place the most efficient and most modern facilities that I can build, and I cannot achieve that through merging with somebody else in this country.

Our steel plant, given our product lines, is the most modern in this country, and we're going to keep it that way if we can. But we can't do it by borrowing more money. We're going to have to do it through generating cash out of profits, and this foreign steel imposition in our market is unfair and must be stopped.

Thank you.

The CHAIRMAN. I have visited, Mr. Luerssen, with your senior management group at Inland, and we've all read the recent article in Forbes magazine, indicating the extent to which Inland has devoted all of its resources to the steel industry. Yet despite the capital equipment accumulation and efforts your company has made to modernize, there seems to be a capital shortage.

How could the Congress be assured that if the industry did get the 15-percent quota it's asking for, sufficient capital would be generated to guarantee modernization?

Mr. LUERSSEN. The assurance lies in the salvation of a significant asset base on the part of each company. Those assets, if they are not added to, modernized, would have to be written off, and the stockholders will move and the managements also will lose their jobs. There's a very large investment in physical assets, that is hanging out there that can be lost.

There are also many obligations with respect to pension and ongoing health care costs that could also be lost, and so there's a very, very large overhang of liability in this industry.

Mr. PEABODY. In addition, if I could just supplement that, Senator, in addition to the point that Mr. Luerssen makes, which people tend to forget and lose sight of, in the Fair Trade in Steel Act, there is an explicit provision which obliges the recycling of the moneys from the steel sector back into the steel sector.

I hesitate to use the word "guarantee," but if anything would be guaranteed, it would be the obligation of the steel companies, when the bill becomes law, to reinvest in the steel sector the funds generated from the steel sector.

The CHAIRMAN. Thank you very much.

I have one further question, Mr. Luerssen, in the area of antitrust.

I did disagree strongly with the Justice Department in its limited viewpoint that I thought it took. I talked to the Attorney General and others about it and was delighted that they did see it differently in a subsequent decision.

In the antitrust areas, I have felt that we have had to take into account that companies today, to be realistic in competing with Japan, would have to be free of antitrust concerns if they pooled research and development to make American industry competitive with other countries and work together in that regard so we didn't duplicate an awful lot of the work that added expense, and didn't make available the highest technology to American industry.

In the antitrust area, do current laws, in your judgment, and present policies allow the industry, the steel industry, to do what it needs to do to restructure?

Mr. LUERSSEN. I'm not an expert in that field, Mr. Chairman, but I believe that with the changes that we've seen in guidelines, certainly there is more opportunity for merger than there has been in the past.

I might say something to one other aspect of your remarks, and that is the joint research and development aspect.

At Inland Steel Co., we are currently conducting some relatively massive research and development programs in Japan, certainly principally because the Japanese have a base of technology and facilities on which to do those experiments, but also because we have less concern, substantially less concern, about the antitrust aspects of doing joint research overseas than in the United States.

That's not to say that perhaps we haven't been overly concerned, as an industry, about those joint research efforts, and we are doing more now, as an industry group, than we have done in the past, carefully avoiding, however, those areas that are clearly competitive technologies.

The **Chairman**. Thank you both very much for your testimony.

Mr. **Peabody**. Thank you, Senator.

The **Chairman**. I appreciate it very much indeed.

We may have some questions to submit to you, and, of course, all of this will be made available immediately to every member of the steel caucus as soon as we have the transcript typed up and printed copies made.

Our next witness is Mr. Robert Thomas. Mr. Thomas is president of Thomas Steel, operating a mini-mill.

I believe you have a brief statement to make, and we have a couple questions for you.

STATEMENT OF ROBERT THOMAS, PRESIDENT, THOMAS STEEL, LEMONT, IL

Mr. **Thomas**. Thank you, Senator. I'll make it very brief. I know the time constraints you're operating under this morning.

We represent the segment of the industry which is referred to as "mini-mills," as opposed to large producers, who are supposedly more successful and more cost-efficient.

I believe that probably, generally speaking, is true. It is our position, however, that unless our products are covered in the section 201 petition and this legislation pending before the Congress, we will be the victim of dumping by foreign producers into the bar product area, which is the product area of most of our types of mills.

I believe I could summarize and say to you that no matter how low our costs are, no matter how good we are at making our product, we cannot successfully compete against subsidized foreign industry, which, in fact, is going on right now. It's going on in our markets right here, and there isn't any question that they, in fact, are subsidized. I have visited some of their plants. I've talked to some of their people. It is a fact.

Frankly, I'm a little bit surprised to hear this morning that our industry may not be allowed to compete fairly because of other governmental concerns, which are not of our making nor, of course, our fault.

Basically, Mr. Chairman, that is our position. We think that we need an equal chance to compete. If we have that, we think we can. If we don't have it, we think we will find it extremely difficult.

I would add very briefly that our mills also need to be continually updated, and mine in particular, which is, of course, the focus of my interest. It is not possible at this time, given the current price levels for our product—which have not reached the price levels of 1982 as of this time—to borrow funds to buy that capital equipment.

Any large-scale purchases of that type, generally speaking, occur today from offshore financing, the machinery then is constructed in some other country and jobs are lost in this country.

That's pretty much it.

The CHAIRMAN. Thank you.

Assistant U.S. Trade Representative Blum stated earlier that minimills have lower costs, higher productivity and are more profitable than major integrated producers.

Is that true from your experience?

Mr. THOMAS. Yes; that is true, but it's not accurate. It's true. We do have lower costs. We do produce more steel per person than they do. In our case—I ran some figures very quickly yesterday—we would produce approximately 666.6 tons per employee per year.

Our profitability, however, in most of the minimills that I know of in the last few years either is very minimal or does not exist at all.

The CHAIRMAN. So that part of it, in your experience, is not true?

Mr. THOMAS. Yes.

The CHAIRMAN. To what do you attribute the greater competitiveness of your operation as compared with other compaines in the industry?

Mr. THOMAS. Generally speaking, it is that we are smaller. We use a different process to melt our steel than the large mills do. We focus on a single niche in the marketplace, and we work toward making that as economical as possible.

I think that's basically the difference between the two of us.

The CHAIRMAN. Could you expand somewhat for us on the limits of minimill production?

Are there certain kinds of products which mills such as yours cannot supply to the steel market?

Mr. THOMAS. Yes, absolutely. There are many product lines that we cannot produce, and we could never afford to purchase that capital equipment today.

The CHAIRMAN. To what extent has your business been hurt by steel imports?

Mr. THOMAS. Our business has been damaged to the extent that it has held the price down for our products.

When we are advised, for instance, as we were advised recently, that there were 5,000 tons of steel available from a South American country at a certain price, we then had to go out into the marketplace and meet that price or lose those customers.

What has really occurred is that the threat of it is holding down our profitability, and what we are concerned with is if the ITC covers only the five product areas which they have ruled upon, the open area will be our product line, which is bar products, and we will suffer a tremendous loss from the offshore competition.

The **Chairman**. Is it true, finally, that most U.S. minimills are opposed to steel quotas because they have no trade problem comparable to the larger mills?

Mr. **Thomas**. I think there is a split in our segment of the industry as to quotas. I personally do not like the idea of a quota system. On the other hand, I can't think of any other system that is workable at this time.

I would hope that on some basis a long-term solution could be worked out that didn't need a quota system. However, as long as foreign governments are going to impose their restrictions upon us and as long as they're going to subsidize, we have to have some protection so that we can compete fairly. That's all we're looking for.

The **Chairman**. Mr. Thomas, we appreciate your testimony very much. It was very concise and right to the point.

Mr. **Thomas**. Thank you.

The **Chairman**. Thank you.

Our last witness in this particular industry panel is Carl Alessi, Illinois legislative director, United Steel Workers of America.

If you will identify who you're accompanied with, Carl, we'd appreciate it.

STATEMENT OF CARL ALESSI, ILLINOIS LEGISLATIVE DIRECTOR, UNITED STEEL WORKERS OF AMERICA, ACCOMPANIED BY MIKE ALLY, CHAIRMAN, GRIEVANCE COMMITTEE, LOCAL 65, UNITED STATES STEEL SOUTH WORKS, HOMEWOOD, IL

Mr. **Alessi**. On my left is Mr. Mike Ally, who is chairman of the Grievance Committee from Local 65, United States Steel South Works, and he will have a few comments to make after we have completed our comments.

Mr. Chairman, as we meet here today, the American steelworker and the American steel industry are confronted with the most serious crisis they have ever faced. What we do or do not do during this session of Congress will determine if America will have what can be called a steel industry in the future.

With the steel industry still operating at what can and should be considered depressed levels, 68.7 percent of capacity, and with the dumping of foreign steel into the United States having now reached more than 26 percent, it is essential that Congress take the necessary steps to preserve and protect the American steel industry and the American steelworker from complete and total destruction.

We must never forget that the steel industry is critical to the national defense of our country and, also, the main ingredient in our industrial complex, without which our manufacturing industry could not survive.

We must also remember that according to Department of Labor statistics, three jobs outside of the steel industry are lost for every steelworker job that is lost. We therefore consider it of the gravest importance that the United States Senate pass S. 2380, the steel import quota bill, restricting the amount of foreign steel being dumped in the United States to no more than 15 percent.

If we are successful in this endeavor, the passage of this legislation will guarantee the creation of hundreds of thousands of additional jobs—and, we might add, good-paying jobs—to the U.S. economy.

While we do not consider import quotas to be the ultimate solution to the problems we face in the steel industry today, we firmly believe that the only way we can ensure that our foreign steel competitors will come to the bargaining table and seriously negotiate a reasonable and equitable solution to this problem would be to pass legislation of this kind.

Is there anyone in this room who would seriously suggest that the Japanese would have negotiated voluntary import quotas on Japanese automobiles, such as was done last year, if they had not been deeply concerned—and, I might add, frightened—by the automobile content legislation that was pending in Congress in 1983?

One could guarantee that if that legislation had not been pending, the Japanese would have insisted upon 2½ to 3 million Japanese automobiles coming into the United States, instead of the 1.8 that was finally negotiated.

In light of what we have preciously said and in view of what is presently going on in the American steel industry, we deem this as the No. 1 priority for Congress during the 1984 session.

Action must be taken now. Otherwise, it will be too late to reverse what is presently happening in the steel industry and to the American steelworker, and you must now remember that S. 2380 guarantees that the American steel industry would be required by law to reinvest money made from the steel industry back into that industry in order to modernize it and make it more competitive.

I would add further, Mr. Chairman, that right at this present moment, we are confronted with the strong possibility and the likelihood that we are going to lose a large segment of steel workers at Republic Steel in South Chicago as a result of the merger between J&L and Republic Steel because there is a duplication of products produced by these two companies.

In the event that we are successful in passing this legislation, it can be almost assured that these departments will not shut down as a result of limiting the amount of foreign steel coming into the United States to a level of 15 percent.

I might further add, Mr. Chairman, that in the first 3 months of 1984, more than 6½ million tons of steel was dumped into the United States. It is increasing at an everincreasing amount every single month, and because, possibly, of the legislation pending now, they're probably going to continue to dump further and more steel into this country.

Let me, if I might, address myself to a couple of comments that were made at this hearing. Several gentlemen from the administration testified about all of the different remedies that we presently have existing to take care of the problems of the dumping of foreign steel.

We have a section 201 petition which is now pending, and the Trade Commission is now looking at a remedy for that. There are other so-called remedies that have been utilized in order to determine whether unfair competition has been utilized by our foreign competitors.

I might add, Mr. Chairman, that all of this takes place after serious harm has been done to a company or an industry, and what has happened basically is that we have had hundreds of plants close down around the country, going out of business. Many of them have already been torn down and destroyed.

I would compare this situation to that when the fire department is called out after the house has burned down to the ground, and then they pat themselves on the back after they put out the fire. That is essentially what is happening here.

Now, with the section 201 petition we have we cannot endeavor to embark upon filing a petition until after serious harm has been done. If the ITC comes out with some sort of reasonable remedy to this problem, I can assure you that it's far too late for many of our steelworkers and many of the companies who have already gone out of business or are in the process of going out of business.

In South Chicago alone at United States Steel South Works, we have over 6,000 people who are unemployed, and I would hesitate to say to you—not "hesitate." Rather, I would say to you that it's virtually certain that the greatest majority of those will never be called back to work.

Some have suggested that one of the answers to our problem would be for the American steelworker to reduce their wages and benefits even further so that we can be more competitive. I would suggest very strongly to you, Mr. Chairman, that that is not the answer, because if we were to do that tomorrow, I would guarantee that our competitors would find other ways of subsidizing their products and still dumping them here in this market at a lower price.

I might give you an example if I'll take another minute of your time. We have a plant on the north side of Chicago that manufactures power tools. That plant, the people, the employees over in that plant, are members of the United Steel Workers of America. Half of that plant has already folded up. Another portion of it was moved to another part of the country.

Basically one of the reasons is that there's a plant in Hong Kong that manufactures power tools. The employees in that plant from Hong Kong come across the border from China every day and cross the border into Hong Kong, and they work a 10-hour day in that power tool plant, and at the end of the 10-hour day, they are paid three kilos of rice.

Now, if we were to reduce our wages down to $1 an hour, we could not compete with that, and I don't think there's anyone in this room or anyone in the administration who suggested that the American worker reduce his wages to three kilos of rice. There is no way that we can compete with this kind of competition, other than imposing restrictions insofar as the amount of imports and the quotas on imports.

Sometimes, Mr. Chairman, the only way you can get the attention of a mule is to hit him over the head with a 2-by-4, and that is what we're suggesting over here: that we have to do something to demonstrate to our foreign trading partners that we are no longer going to tolerate the destruction of major industries such as this and that we are going to do something about it and force them to come to the bargaining table and seriously sit down and negotiate with us a reasonable solution to this most serious problem.

Thank you.

Mr. ALLY. Mr. Chairman, I don't know if you recall in the year 1978, you visited our plant, which is located on the southeast side of Chicago, to essentially kick off a program back then.

The threat is real of foreign steel, something that you were behind quite a bit. At the time you visited our plant in 1978, we had approximately 8,000 people working. Today, as I am in this room, we have 962 people working.

We have been told that the outside of the plant is 100 years old, which it is. The guts of that plant essentially are new. Money has been spent in that plant, but that plant cannot be competitive because of Third World countries as well as the importation coming into this country because we can just not be competitive.

The union as a whole, last March 1, 1983, met with management of, at that time the seven bargaining companies and came up with a $4 billion package of essentially fringe benefits and wages that we gave back to make an attempt to try to create jobs for unemployed steel workers.

I got a chuckle earlier today when I heard you say that you were overjoyed because unemployment has dropped. Well, I think you'd better start looking at your figures or whoever is coming up with the figures, because the unemployment rate has not dropped.

I think if you take a look, within the last 3 months—and the State of Illinois Unemployment Compensation Bureau goes by quarters—you will see that you have over 18,000 people who have run out of benefits. Once those people run out of benefits, they are no longer computed as a figure or a percentage point. I think that area should really be addressed.

I think the passage of this bill, S. 2380, must be done very, very soon or you will see that the lines of people standing outside and asking for unemployment comp, if there will be any for them to get, will be astronomical.

Thank you.

The CHAIRMAN. Thank you very much.

As I have commented privately in the past, I want to publicly put on the record my own feeling about the steel industry, beginning with I.W. Abel's decision, to recognize the realities of the fact that a strike every 3 years caused huge stockpiling. If there was a strike, foreign suppliers gained greater access to this market as more reliable suppliers, and if there wasn't a strike, we distorted all the production anyway because plants lived off their inventories for quite a while.

So the no-strike pledge that came forward then, with close cooperation of the United Steel Workers, and the increase in productivity and improving efficiency and encouraging capital investment so that we improve lower unit production costs I think has been an outstanding example. Despite that, we still have real problems, as we well know.

I have just a couple of questions.

If the steel quota legislation is passed, will the steel companies—traditional steel companies, that is—really benefit?

After all, doesn't the steel industry plan to rationalize its facilities, which is really just another way of saying more plant closings?

Mr. ALESSI. I would respond to that, Mr. Chairman, by agreeing to much of what you have said.

Yes, I would look for them to close those facilities that are very obsolete, but one of the things, as I said initially in our statement, that we have going for us is that under S. 2380, they are required by law to spend that money back in the industry, return that money back into the industry.

I think it's essential that that be recognized and be put on the front burner as one of the major portions of this bill. Otherwise, the Steel Workers Union would not have supported this type of legislation.

Now, I'm not going to put all of the companies in the same bag, but we have great reservations about some of these companies and some individuals within the companies as to what they would do with this type of legislation, and that is why we fought so hard in Washington, insisting upon this money being reinvested back in the industry to modernize.

The CHAIRMAN. I thank you very much indeed. We appreciate very much your appearance here, and your statements will be incorporated into the record.

Our next witnesses are Mr. F.A. George, steel commodities manager of Caterpillar Tractor Co., and Mr. William Rentschler, chairman and CEO of Jackson Forge Co. and Medart, Inc., and a 30-year friend of the chairman.

Delighted to have you here, Bill, to testify this morning. I think this is the first time we've ever had this experience with a table between us.

Mr. RENTSCHLER. I think it is, yes.

The CHAIRMAN. I think your insight into this problem will be very helpful.

Mr. George, if you'd like to start right off.

STATEMENT OF F.A. GEORGE, STEEL COMMODITIES MANAGER, CATERPILLAR TRACTOR CO., PEORIA, IL

Mr. GEORGE. Mr. Chairman, my name is Al George. I'm the steel commodities manager for Caterpillar Tractor Co. in Peoria. In this capacity I have the responsibility for purchasing all steel consumed by U.S. facilities. I appreciate this opportunity to be with you today in Chicago to present my company's views.

My remarks will focus on the counterproductive impact of the quota on steel imports, using Caterpillar as an example.

Caterpillar is a leading manufacturer of earth-moving, construction and materials-handling machinery and equipment and diesel, natural gas and turbine engines. As such, Caterpillar is one of the largest steel consumers in the United States. In fact, we believe the company is probably the second largest consumer of U.S.-produced steel in the world.

Caterpillar purchases have constituted about 1.2 percent of domestic steel production, and in each of the 3 years prior to the depressed 1982–83 period, our total production contained an average of over 1 million tons of steel worth more than one-half billion dollars.

Steel accounts for 65 percent of our machines by weight, 25 percent of the cost of all production materials and 10 percent of the total cost of goods sold. So the price and availability of steel has a significant impact on the company's overall costs, which we are trying to control in order to remain competitive.

Caterpillar faces formidable and greatly increased foreign competition throughout its entire product line. In the recent past, four of our five leading worldwide competitors were U.S. companies. Today, most of our competitors, including the top two, are foreign competitors.

Caterpillar has the highest quality products, the most modern manufacturing facilities and unequaled product support. Yet many competitors have narrowed the gap and now offer high-quality equipment at prices substantially below Caterpillar's.

To remain competitive in this environment, we've undertaken a major corporatewide cost reduction program. Our goal is to reduce 1986 costs to 22 percent or more below those of 1981 in constant dollars adjusted for volume. To accomplish this, we've improved manufacturing efficiency, reduced employment and capital expenditures, and announced the closing of six manufacturing facilities.

A critical aspect of our extensive cost reduction effort is with suppliers. In 1983, Caterpillar purchased $2.5 billion worth of material, supplies, and services. We have targeted this area of expenditures for major permanent savings.

But to control the cost of steel, Caterpillar must have access to both domestic and foreign sources of supply. Over the past several years, foreign steel suppliers have introduced innovative technology and production processes that have enabled them to lower their cost of production and produce products which are in some cases superior qualitywise.

Purchase cost savings are accompanied by lower manufacturing cost savings associated with higher-quality steel. Because steel processing takes up over half of our manufacturing floor space, such reductions are highly significant.

For example, several years ago, European steel producers developed micro-alloyed steel forgers. Use of this steel allows Caterpillar to achieve considerable labor, manufacturing, and energy cost savings which may soon amount to as much as $6 million a year. Continuous cast bars would be another example. This has already been discussed this morning.

The availability of foreign-produced steel also fosters price competition. Until the advent of the minimill, we had rarely seen major U.S. steel producers with prices or product-quality levels far from the industry standard, but the minimill, which benefits from lower cost and higher productivity, increases competition in those limited markets its serves.

Foreign steel producers, by covering a much broader product line in the U.S. marketplace, caused the domestic industry to be even more price competitive. Beyond this immediate and identifiable impact on production costs, we are concerned that a steel import quota would trigger retaliation from countries whose producers would be locked out of the American market.

In such an international tug-of-war, the big losers would be U.S. companies like Caterpillar that rely heavily on exports—and our employees. Ultimately, our suppliers and their employees, including American steel companies and steelworkers, would also suffer.

As one of the largest exporters in the country, Caterpillar's dependence on export sales is virtually unique in American heavy industry. Our exports totaled $1.6 billion last year, 38 percent of the company's sales from domestic production.

Our export sales created U.S. jobs. The company's average U.S. employment was nearly 44,000, with 16,000 employees owing their jobs to Caterpillar exports. A very substantial portion of those jobs, almost 12,000 were here in Illinois.

Caterpillar's exports have greatly benefited our more than 12,400 U.S. suppliers—again, most of which are in the State of Illinois—and their employees. In 1983, $646 million worth of goods and services we purchased from U.S. suppliers were dependent upon our export sales. We estimated that a total of 48,000 Caterpillar supplier jobs were dependent on our 1983 exports.

Moreover, because Caterpillar is one of the largest purchasers of domestic steel and probably the largest exporter of domestically produced steel in our products, the U.S. steel industry and its employees have also benefited significantly. An average of 440,000 tons of domestically produced steel, worth over $230 million, were exported in our products and, based upon steel industry figures, we feel that we have been supporting the employment of 2,120 U.S. steelworkers with our exports.

My point is that resorting to steel quotas would not only seriously threaten Caterpillar's U.S. employees, but would also mean a loss of jobs to U.S. steelworkers. In addition to being harmful to our company and the State of Illinois, we believe that a steel quota would be bad policy for the United States.

Our country cannot afford to have companies move operations overseas because of higher operating costs here. Neither can the world's largest exporting country and the third largest exporting State afford the retaliation which would certainly occur in response to the imposition of steel quotas. The growth of protectionism, both in the United States and abroad, must be stopped. This would be a good spot to show our resolve.

Thank you once again for this opportunity. I would be pleased to respond to questions.

[Mr. George's prepared statement follows:]

STATEMENT BY

F. A. GEORGE
CATERPILLAR TRACTOR CO.

Mr. Chairman and Members of the Subcommittee: My name is Al George. I am the Steel Commodities Manager for Caterpillar Tractor Co. in Peoria, Illinois. In this capacity I have responsibility for purchasing all steel consumed in our U.S. facilities. I appreciate the opportunity to be with you today in Chicago to present my company's views on the proposal to limit steel imports to 15 percent of the domestic market.

My remarks will focus on the counterproductive impact of a quota on steel imports, using Caterpillar as an example.

Caterpillar is a leading manufacturer of earthmoving, construction and materials handling machinery and equipment; and diesel and natural gas engines and turbines. As such, Caterpillar is one of the largest steel consumers in the United States. We believe the company is the second largest consumer of U.S.-produced steel in the world. Caterpillar purchases have constituted about 1.2 percent of all domestic steel production. And in each of the three years prior to the depressed 1982-1983 period, our total production contained an average of over one million tons of steel, worth more than one-half billion dollars.

Steel accounts for: 65 percent of our machines, by weight; 25 percent of the cost of all production materials; and 10 percent of the total cost of goods sold. So the price and availability of steel has a significant impact on the company's overall costs -- which we are trying to control in order for Caterpillar to remain competitive.

Caterpillar faces formidable and greatly increased foreign competition throughout its entire product line. For example, in 1970 four of the five leading earthmoving and construction equipment manufacturers were U.S. companies. Today, our top three competitors are foreign firms. Worldwide, more than 160 foreign manufacturers build nearly 1,000 models of earthmoving and construction machinery of the type Caterpillar manufactures. Many are small, but very competitive in their home markets. Others are aggressive, growing companies seeking to advance in the world marketplace.

Caterpillar has the highest quality products, the most modern manufacturing facilities, and unequalled product support. Yet many competitors have narrowed the gap and now offer high quality equipment at prices substantially below Caterpillar's.

To remain competitive in this environment, we've undertaken a major corporate-wide cost reduction program. Our goal is to reduce 1986 costs to 22 percent or more below those of 1981, in constant dollars adjusted for volume. To accomplish this, we've improved manufacturing efficiency, reduced employment and capital expenditures and announced the closing of six manufacturing plants.

Competition is toughest in the very important replacement parts business. Steel constitutes up to 70 percent of the cost of these goods. We are attempting to meet this challenge by reducing the cost of some parts by 40 percent or more.

A critical aspect of our extensive cost reduction effort is with suppliers. In 1983, Caterpillar purchased $2.5 billion worth of materials, supplies and services. We have targeted this area of expenditure for major, permanent savings.

But to control the cost of steel -- whether for our prime product or parts -- Caterpillar must have access to both domestic and foreign sources of supply.

Over the past several years, many foreign steel mills have introduced innovative technology and production processes. These innovations have allowed foreign mills to produce higher quality products at lower costs than U.S. mills. Those technology-generated savings are important to steel purchasers like Caterpillar.

Purchase cost savings are accompanied by lower manufacturing costs associated with higher quality steel. Because steel processing takes up over half of our manufacturing floor space, such reductions are highly significant.

For example, several years ago European steel producers developed micro-alloyed steel. When used to produce forgings, this steel -- even without special heat treating -- is unusually strong. So Caterpillar achieves considerable labor, manufacturing and energy cost savings -- which may soon amount to as much as $6 million a year. Unfortunately the technology necessary to apply micro-alloyed steel to large forgings is not domestically available.

Continuous cast steel is another example. High quality continuous cast bars can withstand the repeated heavy loads to which our products are subjected. Continuous cast steel costs about 30 percent less than traditional ingot cast steel. The high quality continuous cast bars Caterpillar requires have been produced in Europe and Japan for several years. But availability is limited in the U.S. Though some domestic mini-mills are seeking to develop the capability, their current products do not consistently meet our quality specifications.

The availability of foreign-produced steel also fosters price competition. Until the advent of the mini-mill, we rarely had seen a major U.S. steel producer with prices or product quality levels far from the industry standard. But the mini-mill, which benefits from lower costs and higher productivity, increases competition in those limited markets it serves. Foreign steel producers, by covering much broader product lines in the U.S. marketplace, cause the domestic industry to become even more price competitive.

Imported steel also encourages the domestic industry to modernize. Many technologically superior processes, which have given foreign suppliers a product, quality and production cost advantage, finally are being adopted by domestic mills. We believe foreign competition has provided much of the impetus for renewal of the domestic steel industry.

In short, Caterpillar -- and we believe other U.S. manufacturers -- are well-served by an internationally competitive steel supply situation. The availability of foreign produced steel in the U.S. promotes increased domestic competition. It supports jobs at Caterpillar and with U.S. suppliers, including U.S. steelmakers. And it is clearly preferable to the alternative, which is for U.S. manufacturers to move overseas in order to have access to lower priced foreign materials.

Caterpillar is committed to being competitive in the world market with products produced at our U.S. manufacturing plants. Approximately three-fourths of our fixed assets and employees are in the United States. To preserve this massive U.S. presence, we must have continued access to competitively-priced steel.

Beyond this immediate and identifiable impact on production costs, we are concerned that a steel import quota could trigger retaliation from countries whose producers would be locked out of the American market. In such an international tug-of-war, the big losers would be U.S. companies like Caterpillar that rely heavily on exports -- and their employees. Ultimately our suppliers and their employees (including American steel companies and steelworkers), and the U.S. economy would also suffer.

As one of the largest exporters in the country, Caterpillar's dependence on export sales is virtually unique in American heavy industry. Our U.S. exports totaled $1.6 billion last year, 38 percent of the company's sales from domestic production.

Caterpillar exports provide important benefits. The United States received a $1.3 billion net favorable contribution to the balance of trade -- in a year of an almost $70 billion U.S. trade deficit. (While this favorable contribution was substantial, it was down more than 60 percent from the 1981 peak of $3.3 billion.) For the years 1979-1983, the company's net favorable contribution to the balance of trade totaled more than $12 billion.

Our export sales create U.S. jobs. The company's average 1983 U.S. employment was nearly 44,000, with 16,000 employees owing their jobs to Caterpillar exports. (In 1980 and 1981, 31,000 Caterpillar jobs were supported by export sales from the U.S.) A very substantial portion of these jobs, almost 12,000, were and are in Illinois.

And Caterpillar exports have greatly benefited our more than 12,400 U.S. suppliers and their employees. In 1983, $646 million of the goods and services we purchased from U.S. suppliers were dependent on export sales. We estimate that a total of 48,000 Caterpillar and supplier jobs were dependent on our 1983 exports. (Again, this was down from a peak in 1980 and 1981 of an estimated 93,000 U.S. jobs.)

Moreover, because Caterpillar is one of the largest purchasers of domestic steel and probably the largest exporter of domestically produced steel, the U.S. steel industry and its employees have benefited significantly from Caterpillar's exports. In each of the three years prior to the severely depressed 1982-1983 period, Caterpillar exported, in its products, an average of 440,000 tons of domestically produced steel, worth over $230 million. Based on steel industry figures, we estimate our exports during each of those years supported the employment of about 2,120 U.S. steelworkers.

My point is that resorting to steel quotas would not only seriously threaten Caterpillar's U.S. employees, but could also mean the loss of jobs for U.S. steelworkers.

In the end, a cruel trick is played on any country that relies on protectionism. Protectionism does not and cannot improve a nation's overall employment and economic health. The answer to foreign competition is not to shut it out. The answer is for American goods, and America, to become more competitive.

Steel quotas cannot reverse certain fundamental -- and necessary -- changes taking place in our economy. The United States consumes considerably less steel today than a decade ago. Other materials, some cheaper, lighter and more energy efficient, often replace steel. The steel industry itself has developed lighter, stronger, more sophisticated steel to substitute for the heavier, bulkier product of the past. Decreased demand has led to decreased production.

To adjust, the U.S. industry must continue the major restructuring process already under way. The major integrated steel producers have made substantial progress recently to improve their competitiveness. In the past two years they have reduced total costs 18 percent and increased productivity 25 percent. Capacity reductions have lowered break even operating rates from 80 percent to 69 percent over this period.

Integrated steel producers continue to face significant investment and restructuring requirements. Plant closings, mergers, and cooperative collective bargaining agreements demonstrate a recognition of the need to modernize and cut costs.

In addition to being harmful to our company and the state of Illinois, we believe a steel quota would be bad policy for the United States. Our country cannot afford to have companies move operations overseas because of prohibitively high operating costs here. Neither can the world's largest exporting country and third largest exporting state afford the retaliation which certainly would occur in response to the imposition of steel quotas. The growth of protectionism both in the United States and abroad must be stopped. This would be a good place to begin to show our resolve.

Thank you once again for this opportunity to appear before the committee. I'd be pleased to respond to your questions.

The CHAIRMAN. Thank you very much indeed.

Mr. Bill Rentschler?

STATEMENT OF WILLIAM H. RENTSCHLER, CHAIRMAN/CEO, JACKSON FORGE CORP.; CHAIRMAN/CEO MEDART, INC.; PUBLISHER, NEWS/VOICE NEWSPAPERS, INC., LAKE FOREST, IL

Mr. RENTSCHLER. Mr. Chairman, I come here as a user and fabricator of steel and a representative of small and mid-sized companies in the United States. I'm grateful to you for calling these hearings and providing me with an opportunity to express a small-business perspective.

Following in the wake of Caterpillar's Al George, I feel a little like a chipmunk walking in the footsteps of an elephant, but our perceptions are nonetheless remarkably similar.

My insights are based directly on my present role as chief executive officer of five small steel fabricating companies located in Michigan, where we have 130 employees; Tennessee, 95 employees; Georgia, 105 employees; and Mississippi, two companies with 265 employees. We use variously in considerable quantities sheet, coil, bar, and structural steel.

With its highly effective lobbying apparatus, Big Steel has made its case to Congress and the public. In certain respects, I feel the case they've made is highly distorted and certainly one-sided.

What damage imports may do to the integrated steel industry is more than offset by the benefits of the hundreds of fabricators of steel like ourselves, thousands of their employees, and millions of consumers who buy countless products made from steel.

It is worth noting that, according to Mr. Blum's statement earlier today, metalworking producers like ourselves employ 20 times more people overall than all of Big Steel. Let me cite a specific example.

In Jackson, MI, our company, Jackson Forge Corp., makes custom forgings for such major companies as Chrysler, Mack Truck, Clark Equipment, Cummins Engine, Dana, Warner Gear, and others.

During the recent deep and prolonged recession, our sales declined by 50 percent. We took aggressive steps to beef up our marketing in preparation for the inevitable economic upturn, which we're certainly now feeling. But when it came, we found ourselves frozen out in the early stages, largely because of domestic steel prices, which were too high to allow us to be competitive.

We were high on quote after quote to our customers and prospects because of these relative high steel prices, which were critical to us as a maker of material-intensive forgings. We were completely unsuccessful in getting the major domestic mills to give us prices which would enable us to compete with imported forgings and with competitors buying foreign steel.

This forced a hard decision on us. We, too, would buy some foreign steel for the first time in our lives, so to speak. With the arrival of our first shipment from abroad, our domestic suppliers came flocking to our door, suddenly discovering that they could make certain price concessions. Our decision to buy some steel from abroad, even though it represented only 30 percent of our total requirements, literally saved our life.

Since then, with a competitive price mix on steel, our sales are up nearly 100 percent over the past 9 months, and we have returned to modest profitability. There is not the slightest doubt in my mind that our imported steel gave us the bargaining clout we needed to buy at reasonably competitive prices from the big domestic producers.

The most pressing problems of most steel companies do not stem primarily from foreign competition. While some companies, like Inland Steel, for example—perhaps notably Inland Steel—have been run with vision and competence, some of the largest firms in the industry are now victims of their own long-term arrogance, complacency, and shortsightedness over two decades or more. They've been out buying oil companies and savings and loans, while ignoring their steelmaking facilities.

While some visionary companies like General Electric were resisting excessive union demands many years ago, big steel, and the auto companies as well, were giving away the store, taking the easy way out and creating impossible future conditions.

Now they want a Government bailout that would benefit them but surely hurt their customers and the American public as well. I respectfully submit that small and mid-sized companies, their employees and the American consumer should not be penalized and perhaps driven out of business and out of work to atone for some of these past sins of big steel.

It seems inevitable to me that the major steel companies will immediately raise their prices the minute foreign competition is curtailed, inflicting severe, perhaps even lethal, damage on defenseless smaller companies with limited alternatives.

It is my understanding, based on a letter I received yesterday from U.S. Trade Representative Bill Brock, that the ultimate decision on this matter, to be made by the President of the United States later this year, will consider the impact of import relief, "on U.S. consumers and the economy as a whole," as well as the concerns of companies like ours. To me, this is very heartening.

Let me add that the unwarranted strength of the dollar worldwide, increasing interest rates and the absence of any genuine zeal to press major deficit reduction initiatives also are contributing to a dangerous scenario for our economic future.

Senator Percy, I appreciate this opportunity to express a viewpoint that I believe is widely shared by users of steel and many small businessmen throughout the United States.

Thank you very much.

The CHAIRMAN. Thank you very much indeed for your testimony on behalf of small and medium-sized companies.

There is some difference, though. You have a larger share of ownership than some of our other witnesses have, and that puts you pretty close to the business, and you feel very strongly about it, I know. We have received testimony from the integrated steel companies, indicating that the current low price for steel products is hindering their attempts to modernize.

Mr. Rentschler, how would an increase in the price of steel affect your companies' ability to compete?

Mr. RENTSCHLER. It would be devastating. We started buying steel from abroad. We made our first commitments only 8 or 9 months ago, and this has been a boon to us. We've been able to pick up significant business, as a direct result of lower foreign steel prices.

We had lost a great deal of business to foreign competitors and to companies using foreign steel. We tried, for example, to get business from Allis-Chalmers, which is right up in Milwaukee, in the very heart of what I'd call the metal-working belt in this country, and we were astounded to learn that they were buying all of their forgings overseas.

They were buying them from Korea and China. They were buying them from various areas of Europe. But they weren't buying any from American forging companies, even though there are many within a few hundred miles of them and many down here in Chicago, 100 miles away.

We've since picked up a few small jobs, but all of the major forging jobs have gone out of this country. As I say, we made every effort to get the major U.S. steel companies we buy from—United States Steel, Bethlehem, Republic, and others of that ilk—to come up with lower competitive prices, but they were unable or unwilling to do so.

When we talked about buying overseas, that had very little impact. When the first boatload came in, however, we got their attention.

The CHAIRMAN. Are you opposed, Mr. Rentschler, to all forms of import remedies or are there remedies which would not have an adverse impact on your businesses?

Mr. RENTSCHLER. I don't profess to be enough of an expert in trade policy to be able to answer that very definitively, Senator, but it seems to me what I find most objectionable is this across-the-board relief which is requested.

Even though it is alleged to be temporary, it covers a long period of time, and there's no possible way we could endure, without some kind of steel price mix, that would really enable us to compete.

Our company up in Michigan has 135 employees. When we acquired that company, there were only 45 employees, and the company was completely flat on its fanny. We've brought everybody back to work.

Now, they're union members, too; they're members of the United Auto Workers, and they have as much to lose as the steel workers. Many small companies that are affected this way, and I think that one thing we must keep in mind, as Bill Brock said and as Mr. Blum pointed out, is that there are 20 times as many people employed overall in these peripheral companies, which rely for their life on purchasing steel and fabricating steel.

The CHAIRMAN. Thank you very much indeed.

Mr. George, Economic Consulting Services, Inc., has submitted an analysis on behalf of the petitioners in the section 201 case—that is, those who participated in that case—which established that the import relief sought would result in a price increase in steel products of between 6 and 7 percent.

What effect would such an increase have on the competitive position of Caterpillar?

Mr. GEORGE. First of all, I might take exception with the 6- to 7-percent figure. Mr. Donald Trautlein, who is the chairman of Bethlehen Steel, was recently quoted I believe in a Forbes magazine article as saying that it would result in an immediate 10-percent increase in prices.

But using both figures, as I stated, our company is in the throes of a rather large cost improvement program. We're trying to get our costs down 22 percent in a 5-year period, 1981 through 1986. A 7-percent increase is a third of that. A 10-percent increase is almost half of that, with respect to steel.

So it would have a very large impact on our ability to get in line with our competition, which is increasingly foreign and has access to the same sources of steel that we're saying we need to keep out of this country.

Again, as Mr. Rentschler has pointed out, there are many more jobs involved in the industries that use steel that can be impacted by this and put them in a much more vulnerable position for importation of the finished product or at least an advanced stage of the fabrication.

The CHAIRMAN. Do you both support the efforts that we have been making to see that the hardness of the dollar in relationship to the yen, which really puts a 25-percent or 20-percent increased price on an American product, is unfair if we can demonstrate that the yen, say, is not subjected to some of the changes that they've recently made, having it now an international currency, which has caused the yen to rise in value and created greater demand for it?

Is our effort in that direction a constructive, sound one?

Mr. GEORGE. It certainly is.

When I speak of our cost improvement program, the other half of this program, if you will, is to certainly encourage action on currency as has been recently done.

About half of our problem in competition with Japanese companies is the weakness of the yen. I think we have made a good case for the fact that it is artifically weak and that this is supported by actions of the financial market in Japan.

The recent action is certainly a step in the right direction. We hope to see some results out of that. We're waiting to see if that, indeed, is the case.

The CHAIRMAN. Mr. Rentschler?

Mr. RENTSCHLER. Thank you very much.

The CHAIRMAN. I thank you both very much for your very helpful testimony today.

Our next witness is Mr. David Soble, president of Interstate Steel, and Mr. Robert Hanson, vice president of Century Steel.

STATEMENT OF DAVID SOBLE, PRESIDENT, INTERSTATE STEEL; MEMBER, GOVERNMENT AFFAIRS COMMITTEE, STEEL SERVICE CENTER INSTITUTE, DES PLAINES, IL

Mr. SOBLE. Thank you, Senator.

My name is David Soble. I am president of Interstate Steel Co., a Chicago area steel service center. I am also a member of the Government Affairs Committee of the Steel Service Center Institute and a former member of ISAC-7, the Industry Sector Advisory Committee on Ferrous Metals.

My main concern today is for my customers, the metal-working industry. To quote from the Steel Service Center Institute Policy on International Trade, "We support a policy of free and fair international trade to assure a stable supply on a continous basis of competitively-priced steel to ensure the economic viability of the American steel consumers and manufacturers in a global economy."

To this end, Interstate has been buying steel produced in the United States for 38 years and steel produced in other parts of the world for 25 years. In 1983, Interstate bought steel produced in 17 countries. We bought four times as much American steel as from our second leading supplying country.

Our buying decisions and our customers' buying decisions are based on the value of products, and price is only one factor of value. Quality and reliability of continuing supply are also very important components of value.

The domestic mills agree with these buying criteria. They buy imported semifinished steel for competitive reasons and to round out production imbalances. Domestic mill-owned service centers buy foreign steel for geographic and quality reasons and competitive pricing.

Many of our customers export their products. Many more sell their products in the United States in competition with imported products. The people who buy these goods are more concerned with quality and price than they are with country of origin.

A statistic often cited—and cited here several times—is that there are 20 metal-working jobs for every steel-production job in the United States. If these figures are near accurate, the impact of 201 relief on the metal-working industry is critical and must not be ignored.

To remedy one injury with an injury of an equally serious nature is no remedy at all. This is especially true because in the long run, injury to the metal-working industry will further weaken the domestic steel industry. A weak customer base must make for an unhealthy future for the domestic steel industry.

Another consideration when weighing remedies is disturbing valuable long-range customer-supplier relationships. There is a cost to developing such relationships in terms of time and trial-and-error mistakes, which is an investment in the future health of a business. Arbitrary remedies, which ignore these historical patterns and relationships, would be costly to all concerned.

I don't have the answer to the international steel trade problem in general, nor to the section 201 remedy problem in particular. I can only caution that the Midwest metal-working industry must have continuing availability of high-quality, competitively priced steel. Higher tariffs or severely restrictive quotas will not allow that supply and will endanger the future of Midwest industry. In the long run, that would hurt American steel makers and American consumers.

Thank you.

The CHAIRMAN. Thank you very much.

Mr. Hanson, do you have a statement?

Mr. HANSON. Yes.

STATEMENT OF ROBERT F. HANSON, PRESIDENT, ASSOCIATION OF STEEL DISTRIBUTORS, CHICAGO HEIGHTS, IL

Mr. HANSON. I appear before you as the national president of the Association of Steel Distributors [ASD] and not as Century Steel.

The Association of Steel Distributors is a nationwide trade association, representing a substantial portion of the steel distribution and service center industry.

The steel distribution industry is the largest purchaser of domestic steel, accounting for over one-fourth of all domestic steel sold in the United States. In addition, a substantial portion of imported steel is distributed by the industry.

ASD supports the need for a strong, viable domestic steel industry protected from dumping, subsidization and other forms of unfair trade practices outlined under the various trade agreements and trade laws and amendments thereto that provide for fair international trade.

ASD does not support the quota system as requested under the section 201 petition before the International Trade Commission for the following reasons: This quota system will restrict the inflow of competitively priced steel, thereby creating inflationary increases in the cost of this basic commodity, thus affecting all consumers.

I have heard various figures as to what percentage increase would come about, and if they simply remove the competitive price allowance that is in effect on many products today, the cost increase will be approximately 20 percent.

It will cause more and more manufacturers of steel products to seek relief overseas for semifinished and finished products not covered by the quota, resulting in a reduction in domestic employment in the metal-working industries.

The west coast of the United States, including the 11 Western States, is dependent upon foreign steel for at least 60 percent of all usage and 100 percent of some steel products not produced at all in that area. Due to transportation costs, it is impossible to purchase domestic steel and be competitive.

Under the quota system, our west coast members feel they will not receive adequate supplies or, because of the demand-supply ratio, will be forced to pay highly increased prices, thereby forcing their customers into uncompetitive situations and probably resulting in some manufacturers relocating plants in Canada and Mexico. A similar situation exists in the Western Gulf States.

The steel distribution industry also has problems with foreign-owned and operated distribution centers. However, for the most part, these have been depots not performing normal service center operations. Recently new Greenfield plants are being built with the complete processing facilities. The legislative quota will only increase new foreign mill and trading company service centers to take advantage of value-added operations, creating a very difficult situation for our members.

If the quota system requested in the section 201 petition is granted, many questions must be addressed, some of which follow:

In view of the cyclical nature of the steel industry, how would percentages for quarters or yearly be developed?

Due the long leadtime of at least 90 days between order and delivery, steel could be delivered during slow periods and not available during strong periods, thus resulting in chaotic and disorderly market conditions.

How would percentages for various foreign steel-producing nations be established? Depending on the base period used, certain Third World countries would be eliminated. If the base period is the one used in the section 201 petition, most South American countries, our largest debtor nations, would have little or no quota.

How would products covered by the section 201 petition but either not produced by the major domestic mills, or are extremely reluctant to produce, be handled; in particular, very light-gauge galvanized?

ASD can and would support negotiated agreements with the overseas producers of steel—such as the agreements with the EEC, Japan, South Africa, and Mexico—providing these agreements can be renegotiated as conditions change.

In view of the brevity of this statement, I'd be very happy to answer any questions.

The CHAIRMAN. We thank you very much.

Mr. Soble, I have a question for you.

Can you envision any form of import relief which would not limit the necessary access of the metal-working industry to overseas sources?

Mr. SOBLE. I would say that it's possible to have quotas that are less restrictive than other quotas.

I think that there are people in the administration today, like Mr. Blum and Mr. Holmer, who have studied the problem and have also studied our problem, the problem of the distribution industry, and would be best able to put together these kinds of quotas which would do the least disruption to the midwest metalworking industry.

The **Chairman**. Thank you.

Mr. Hanson, haven't the steel import restrictions which are already in place had an adverse impact on domestic steel fabricators and the U.S. metal-working industries in general?

Mr. **Hanson**. I'm sorry. I didn't understand the question.

The **Chairman**. Have the steel import restrictions which are already in place had an adverse impact on domestic steel fabricators and the U.S. metal-working industries in general?

Mr. **Hanson**. I don't necessarily think so.

As far as the specialty steel agreements, it's a very small portion of the steel that is used in this country and probably has not had too great an effect.

The other agreements that are in effect seem to have worked out quite well and have not really had a disruptive effect on competitive conditions, in my opinion.

The **Chairman**. I thank you both very much.

We'll keep the record open for a few days in case you want to add anything, and maybe other members of the committee will be sending in their questions to you.

Thank you very much.

Mr. **Soble**. Thank you.

The **Chairman**. Our next witness is Mr. Lloyd Anderson, president of the Land of Lincoln Soybean Association.

I welcome you to Chicago, and I remember our meeting together with a delegation from your association in Washington several months ago.

STATEMENT OF LLOYD ANDERSON, PRESIDENT, LAND OF LINCOLN SOYBEAN ASSOCIATION, BLOOMINGTON, IL

Mr. **Anderson**. Yes, sir, Senator. Thank you.

I am Lloyd Anderson. I am a soybean farmer from Danforth, IL, in Iroquois County. I am president of the Land of Lincoln Soybean Association, an organization representing Illinois' 80,000 soybean producers and members like yourself.

Soybean farmers place great importance upon international trade. This year the United States will export over $8.2 billion of soybeans and soybean products, the largest of any commodity sector.

The soybean industry has been successful in the export arena largely because we have enjoyed relatively free access to key foreign markets.

We enjoy duty-free access for soybeans into the European Community, Japan, and Spain. Collectively these nations buy over $5.7 billion worth of our exports. Other large foreign customers include Korea, Taiwan, Mexico, and Canada.

We can expect our foreign customers to react to U.S. steel import quotas by imposing retaliatory import barriers against our exports to their countries. The European Community in particular will be inclined to single out soybeans for retaliation.

Earlier this year, with your help and leadership, Senator Percy, we were able to convince the EC not to implement a proposed consumption tax on fats and oils, including soybean oil. That tax would greatly undermine our zero-duty binding in the EC and cost us millions of dollars in lost exports to the 10 nations in the EC.

The European Community nation which opposed the tax most strongly was Germany. Yet it is Germany which would be most impacted by the U.S. steel quotas. How long could we expect Germany to support us on the oils and fats tax if we impose import quotas against its steel? Certainly not very long.

This is a difficult issue, but we must not cripple one segment of our economy while trying to remedy another segment's problems. We hope our remarks will be helpful, and we apprecitate your calling this hearing and offering the Land of Lincoln Soybean Association the opportunity to testify. We'd also like to thank you for bringing to light the dangers of the vegetable oil tax proposed by the EC.

Thank you.

[Mr. Anderson's prepared statement follows:]

PREPARED STATEMENT OF LLOYD ANDERSON

Thank you, Senator Percy, for this opportunity to testify regarding efforts by the U.S. steel industry to convince the Congress and the President to impose quotas on imported steel. I am Lloyd Anderson, a farmer from Danforth, Illinois. I serve as President of the Land of Lincoln Soybean Association, an organization representing Illinois soybean farmers.

Soybean farmers are strongly opposed to the proposals to limit imports of steel to 15 percent of domestic use over the next 5 years. While we certainly can sympathize with the concerns of U.S. steel producers and steel workers with the health of their industry and their employment, we believe restrictions on imported steel would represent bad public policy and would be counterproductive to the long-term health and competitiveness of the U.S. steel industry. Most important, we are confident the steel import restrictions would result in lost export sales to U.S. soybean farmers as well as increases in the prices farmers must pay for machinery, equipment, and other steel products.

Soybean farmers place great importance upon international trade. This year the United States will export over $8.2 billion of soybeans and soybean products, the largest of any commodity sector. Fully 50 percent of U.S. soybeans are exported annually. Illinois soybean farmers produce more soybeans than any other state. Soybean and product exports from Illinois will this year be valued at over $1.3 billion.

The U.S. soybean industry has been successful in the export arena largely because we have enjoyed relatively free access to key foreign markets. We enjoy duty-free access for soybeans into the European Community, Japan and Spain. Collectively these nations buy over $5.7 billion worth of our exports. Other large foreign customers include Korea, Taiwan, Mexico and Canada.

I am sure you have noticed the countries which buy our soybeans are also the nations which would be most affected by U.S. steel import restrictions. If the steel industry gets its way, those nations will not be able to sell as much steel into the U.S. market and they will earn less foreign exchange, which they use to purchase our soybeans and soybean products, among other items. Undoubtedly we will see a loss in our exports because the nations will not have as much foreign exchange if steel imports quotas are implemented.

We can also expect our foreign customers to react to U.S. steel import quotas by imposing retaliatory import barriers against our exports to their countries. The European Community, in particular, will be inclined to single out soybeans for retailiation. Earlier this year with your help and leadership, Senator Percy, we were able to convince the EC not to implement a proposed consumption tax on fats and oils, including soybean oil. That tax would greatly undermine our zero duty binding in the EC and cost us millions of dollars in lost exports to the 10 nations in the EC.

Possibly the EC nation which opposed the tax most strongly was Germany, yet it is Germany which would be most impacted by U.S. steel quotas. How long could we expect Germany to support us on the oils and fats tax if we impose quotas against its steel? Certainly not very long.

Some may say our foreign customers cannot afford to reduce their soybean imports. While we agree they need soybean imports, those soybeans don't have to come from the United States. They can instead be imported from Brazil or Argentina, our principal competitors. We note that Brazil is another nation which would be impacted by U.S. steel import restrictions. Considering its huge international debt obligation, can we not expect Brazil to place greater priority on producing and exporting soybeans and products to gain foreign exchange if it cannot export steel to the United States? Of course it will. Brazil will have no other choice, except to default on its loans from foreign banks.

Aside from the obvious trade-related costs, soybean farmers can also expect to see higher costs for tractors, combines, plows, and other steel-containing products if the United States imposes steel import quotas. Foreign steel is lower/priced than U.S. steel. With less foreign steel imports U.S. steel prices are certain to rise. Why else would the U.S. steel industry seek quotas? The Congressional Budget Office has estimated the cost to U.S. consumers of steel quotas would be $7.7 billion annually. Since 80 to 90 percent of a plow or combine is steel, it is obvious the price increases in steel would be passed on to farmers in the form of higher-priced machinery and equipment. At a time when we are already struggling to make a profit from farming, we cannot afford such a cost of steel protectionism. What about U.S. auto makers, railroads, and other large steel consumers? Can they afford the price of protecting our inefficient steel industry?

Senator Percy, the proposed steel quotas should not be implemented. Instead, America's steel industry must be modernized and become more price competitive through increased efficiency. All steel quotas would do is force workers and businessmen to pay higher prices for U.S. steel.

This is a difficult issue, but we must not cripple one segment of our economy while trying to remedy another segment's problems.

We hope our remarks are helpful and we appreciate you calling this hearing and offering the Land of Lincoln Soybean Association the opportunity to testify.

Thank you.

The **Chairman**. Thank you very much, Mr. Anderson. I appreciate your being with us very much.

How important is Brazil, for instance, to the world as a soybean exporter? What is its potential as a soybean producer?

Mr. **Anderson**. Brazil is very important. They're the No. 2 overall soybean producer for meal and oil right now. They have potential production of 100 million total acres if the profit incentives are there. What they need now are better railroads, bridges, transportation systems, and loading facilities at their docks.

The **Chairman**. As you recall, I have evidenced my concern that every time we put an embargo on, all we do is really stimulate competition, and as chairman of the Foreign Relations Committee, I think it's a terrible way to try to implement our foreign policy.

It's a weapon we have that we never should use, because we become unreliable suppliers, and when we have a grain embargo, the chairman of Caterpillar will testify and has testified that it adversely affects their reliability as a supplier.

Who wants to buy an American product if they'll be boycotted for political reasons, unrelated to the economic value of the product, and couldn't buy spare parts, for instance?

So we've worked together very, very hard to become a reliable supplier, and when we did embargo for domestic purposes to force prices down on soybeans, Brazil benefited by a billion-dollar investment by Japan to create a huge competitor to us, so it is terribly important that we be aware of the reactions that we can have against this.

You pointed out in your testimony that farmers would be hit by higher prices for steel products.

Are farmers heavy users of steel and in what way or products?

Mr. Anderson. Well, pretty near everything that I use is made of steel. My tractors, my combines, all of my equipment is steel, my steel bins that I hold my grain in, my grain augers, everything. I'm affected by steel prices completely.

Really, what we get down to, Senator, is the farmer would take a double blow if this would go through because the price of soybeans would probably be lower due to lack of exports and the price of steel that I would have to buy would increase, so I would really be paying double for this.

The Chairman. My last question relates really to an effort I had made for more than a decade in Congress to get the deficit down, first by writing the Budget Reform Act of 1974, which required and has actually resulted in Congress spending its first 4 or 5 months arguing out the budget and setting a budget before we authorized and appropriated a single penny, so at least we'd know where we were and never allow Christmas-tree bills at the end of the year to be added on, thus putting us way over the budget. Once we set that goal, it's been too high, but at least we've stayed there.

It's also caused me to fight the ABM 10 years ago, which saved us $100 billion. Congressman Corcoran was right. I did cast the deciding vote against the 10-percent increase in defense spending and supported a 5-percent increase, which saved us in that one bill $15 billion, and we'll save another $15 billion or more this year.

You suggested in your testimony that the Federal Government balance the budget to bring down interest rates and the value of the dollar. I am a sponsor of the balanced budget amendment to the Constitution, feeling that we've simply got to do that.

How much do interest rates actually cost farmers, and what is the impact of the high-valued dollar on your exports?

Mr. Anderson. About each 1-percent increase in interest costs costs the American farmer between $2 and $3 billion per year. For most farmers, like myself, this amounts to $2,500 or $3,000 for each 1-percent increase. So you can see the balanced budget would affect my income, also.

The Chairman. I thank you very much. We appreciate your testimony very much, the value of your testimony.

Mr. Anderson. Thank you Senator.

The Chairman. For our last panel—we will call now and ask that all of them come to the table—James Fitch, president of the South Chicago Development Commission; George Elliopoulis, a member of the South Chicago Chamber of Commerce; and Marsha Wontor, a board member of the South Chicago Chamber of Commerce and editor of the Southeast Shopper.

As I understand it, Mr. Fitch will read a short statement, and then we will have questions to the other members of the panel.

Our final panel is on the local impact, and it was, after all, at the Chamber of Commerce meeting that I conceived of the idea and announced, after listening to so many of the members there that night, that we would hold a hearing in Chicago, not in Washington, on this subject, and I think the body of testimony that we will be building up is extremely valuable.

Mr. Fitch. Thank you very much, Senator, and let me be the first to acknowledge that the messages to Washington do get through. It was because of the hidden agenda the night that you graced us with a very inspiring speech on the state of the steel industry and the economy and how it affects communities like South Chicago that we pursued the subject, and we're glad that you followed through.

The Chairman. As I remember, that's where I first condemned the Justice Department for the decision that they had made.

Mr. Fitch. Yes, sir. It was an interesting evening, sir.

STATEMENT OF JAMES FITCH, PRESIDENT, SOUTH CHICAGO DEVELOPMENT COMMISSION, ACCOMPANIED BY MARSHA WONTOR, BOARD MEMBER, SOUTH CHICAGO CHAMBER OF COMMERCE, EDITOR, SOUTHEAST SHOPPER; AND GEORGE ELLIOPOULIS, MEMBER, SOUTH CHICAGO CHAMBER OF COMMERCE, CHICAGO, IL

Mr. Fitch. We certainly appreciate the opportunity to testify to the Senate Foreign Relations Committee on a very important issue that's close to my heart and mind.

Certainly because of our past and our future as residents and business people in the South Chicago community, we would like very much to be on the record.

I am basically a community banker located in the heart of Chicago's steel-producing center—or should I say its former steel-producing center. The South Chicago Savings Bank has served the likes of United States Steel South Works, Wisconsin Steel, Republic Steel, Interlake, Valley Mold & Iron, and a myriad of related businesses and thousands of their employees dating back to 1902.

In addition, I would like to state for the record that my personal history in the area dates back not quite that far, but many years ago, when I started out as a part-time employee around the steel mills while I was in high school. So I've been a witness to and participated in the ups and downs in the steel industry economy for a decade. I started my job in the bank as an installment lender during the long strike of 1959, so I had the experience of people out of work as a beginning in the business.

But no changes, I submit, have been so pervasive and foreboding as those resulting from the increased import of foreign steel.

At the height of our Nation's most recent recession, the unemployment rate in South Chicago was reliably estimated to be 35 percent during the summer of 1982. That was a rate easily three times the national average.

Though things have improved somewhat in recent months with the recovery, for the residents of the area, current unemployment rates continue unfortunately to exceed the national, State, and the city's averages.

For example, the South Works of United States Steel employed close to 10,000 people not too many years ago. Today less than 500 are hanging on to their jobs. I might say, Senator, that I was on the site of the South Works this morning for 2 hours while we were working on a redevelopment project for that territory, and I would guess that I didn't count any more than 50 people in hard hats working over there this morning.

I need only mention Wisconsin Steel and the sudden devastation that occurred to 3,000 families, and I think my point is well made.

The South Chicago shopping district was listed in Crane's Chicago Business a couple of years ago as sixth in growth in retail sales in the city, exclusive of the North Michigan and the loop areas, for the period between 1972 and 1977. Today the storefront vacancy rate is visibly and dramatically increased, and the sales volume is demonstrably down.

Unemployment rates in retail sales volume, of course, are related. The results of the South Chicago Development Commission study, which showed those outrageous unemployment rates, also provided information on how many actual job slots were lost. Of the original job base of 50,577 steel-related positions in 1980, 28,500 of those jobs are gone from the area today. The majority of these steel-related jobs have been permanently lost to our economy and the economy of the city.

Estimates relating manufacturing jobs to retail sales say that each job generates $35,000 annually in retail sales. Knowing this, the changes in South Chicago's business district are no surprise.

From a personal point of view, our little bank employs about 100 people, most of whom are women. In good times, our turnover rate was higher than most standards, as young women married and started families. Today our turnover rate is less than 4 percent. We believe that that's a sign of our times: More new mothers return to work after maternity leave than ever before, and more husbands of employees are out of work than ever before.

More of our female employees are working out of absolute necessity and no longer have the luxury to choose between staying at home with the children or working at the bank. We are no longer the source of a second income, but in many cases provide the only income for the family.

Our business and personal loan volume is down. Our lobby traffic is far less than just 2 years ago, and very few home mortgages have been made this year. Home improvement loan volume is also down, which substantiates a marketing study that the bank conducted at the end of 1983, which said that local residents were not planning to borrow money for any purpose at this time.

Our community is made up of folks who pay their bills, and if there aren't any jobs, they aren't about to borrow any money. The cars on the street look older. House painting has been postponed far more than I ever remember in the past.

The volunteers who work for the Calument Area Children's Fund had to double their efforts in the last year. Two years ago, we supplied needy children 150 coats and shoes from the fund. This last holiday, 322 have received new clothes through the generosity of their neighbors.

There are other telltale signs which signify the changes resulting from the decreased potency of our domestic steel industry, such as long lines, tragically long lines, when food pantries are opened and distributing food.

The impact of imported steel is all around me. It is not a pretty picture I have tried to paint, but I think a realistic one.

Thank you very much, Senator.

The **Chairman**. Thank you very much. We appreciate your testimony, Mr. Fitch.

Marsha, do you or George have any comments?

Ms. **Wontor**. No.

The **Chairman**. I have a few questions.

Before I go into those questions, however, I would like to set the record straight on a statement that was made here that is an inaccurate statement.

The statement was made that the unemployment figures that I gave do not account for those people who have exhausted their unemployment benefits and are subsequently not included in the statistics. This is absolutely incorrect, and that information should be corrected.

The Department of Labor's calculations, as is well known, for unemployment have nothing to do and have never had anything to do with whether someone is receiving or not receiving unemployment benefits. To calculate unemployment figures, the Department of Labor does a survey of households. They do not use numbers based on unemployment compensations figures.

The nationwide survey of households has an error rate of only two-tenths of 1 percent. That contrasts with an acknowledged error rate of 3 or 4 percent on a Gallup poll, for instance. This is far more accurate than that. The only requirement in being included in unemployment figures is that an individual has sought work within the last 4 weeks.

The unemployment figure I gave is the lowest unemployment now, 8.2 percent, since July 1981, and if we compare it with the national figures, in May, national unemployment was 7.5 percent. In June, the figure just released this morning, 7.1 percent.

That means that nationally we've gone down four-tenths of 1 percent. In the State, we've gone down in 1 month nine-tenths of 1 percent. That's more than double the rate nationally, and we are for the first time starting to catch up, narrow the gap, and economic recovery is underway in Illinois.

We know that there are pockets of unemployment. We know that there are industries that have too much unemployment. We're not satisfied and will not be satisfied until every person who wants a job can get a job, but I still feel that the record should be accurate on what has been given, and I hope that those who comment on it in the future will use the correct figures.

Ms. Wontor, I wonder if I could start with you for a few questions.

How long have you worked and/or lived in South Chicago?

Ms. **Wontor**. For 7 years, Senator.

The **Chairman**. How and when was your business started? What is the nature of your business and how has your business changed?

Ms. **Wontor**. I started my business last October. We run a weekly newspaper serving the south side.

The **Chairman**. Can all of you hear in the back?

A **Voice**. No.

The **Chairman**. No, they cannot hear, so what you'll have to do is maybe hold the microphone right up to you. It's quite directional, so please start over.

Ms. WONTOR. OK.

We started our business last October. We are a weekly newspaper serving the southeast side, and since we are a new business, I'm not able to judge any changes at this time.

I might add that my husband and I started our business as a result of unemployment. We both were laid off of our jobs at local steel mills.

The CHAIRMAN. Who are or who were your customers?

Have you always had the same customers and have they changed over the years?

Ms. WONTOR. Our customers are the local retail and service business owners on the southeast side, and there again, since we've been in the business, they haven't changed in the last 9 months.

The CHAIRMAN. How are they affected by the steel industry?

Ms. WONTOR. Very severely. As Jim has said in his statement, the retailers depend upon the employment in the steel industry for their businesses, and since unemployment is so high in the area, the retailers were the first people to feel the effect of that.

The CHAIRMAN. When you think back to the 1970's, how business was in the early 1970's, how are you doing today and what are your expectations for the future?

Ms. WONTOR. We can't compare to the past since we're a new business in the area.

We have expectations and hope for the future. There is a strong local movement to initiate some sort of economic redevelopment in the area and to try to make up for the lack of employment that's been left by the decline in the steel industry. So right now we're existing on hope, as everyone else is.

The CHAIRMAN. Finally, just in a nutshell, how does the steel industry affect your business?

Ms. WONTOR. As everyone else who is involved in the economy on the southeast side, we go had in hand. Anyone involved in business in South Chicago feels the immediate effect of any change in the steel industry.

The CHAIRMAN. Thank you.

George Elliopoulis, how long have you worked or lived in the South Chicago area?

Mr. ELLIOPOULIS. Senator, I was born in South Chicago. My family has been in business there for 50 years as of 1984.

The CHAIRMAN. When was the business started, actually?

Mr. ELLIOPOULIS. July 1, 1934.

The CHAIRMAN. That was a rough year to start a business.

What is the nature of your business and how has it changed over the years?

Mr. ELLIOPOULIS. We're a family-owned dry-cleaner in the South Chicago area. We've been able to survive in these recent years mostly because our property is bought and paid for and, being a family, we can do most of the work ourselves. We don't have to rely too much on outside help.

Our effect, as I see it, is in the area of between 15 and 20 percent down in sales in the last 3 years.

The CHAIRMAN. Who are your customers today or who were your customers in the past? How have they changed through the years?

Mr. ELLIOPOULIS. We rely upon local people. We did have some customers who were coming into the southeast side that didn't live there, but consequently did business with us and other local businesses more as a convenience situation, dropping off their drycleaning on the way to the mills, picking it up that evening after work and taking it back home. So we have been affected in that way.

Our other customers remain the same. Most of the people in the South Chicago area have stayed there. Some have moved out to the suburbs or other locations mostly to follow their work, but our customers basically are the same that they've been for many, many years.

The CHAIRMAN. Can you think back also as to what your business was like in the early 1970's and compare it with today?

What do you look forward to experiencing in the future?

Mr. ELLIOPOULIS. The 1970's for us were—it's a funny situation because that was the era of polyester in our particular industry, and so many dry cleaners folded up during the 1970's for that reason. We also made money in the 1970's.

Our cost factor, of course, is much different today than it was then. In products, for instance, I'm paying today $4.20 for a gallon of perchloroethylene, which dry-cleans your suit. In the 1970's I was paying $1.35 for that same gallon of material, so our cost factor, of course, has risen quite a bit.

The CHAIRMAN. I'd like to thank, as we draw this hearing to a close, all of our witnesses who have appeared. Some of them have come from some distance.

We've dealt with a very important subject. As many of you know, the International Trade Commission will be voting next week on what remedies to recommend to the President in the section 201 case.

Although I had originally planned these hearings for early next month, I moved the date up to be certain that the information that they would seek to gather would be on the public record for the Commission's consideration.

In order to ensure that proper consideration is given to the testimony that's been given and heard today, I will see to it that copies are delivered to the ITC and to every Commissioner personally early next week so that they have it available in hand to study as they come to their conclusions.

In addition, I intend to be active on this issue before the ITC makes its recommendations to the President. Beyond seeking policy decisions which will best benefit the State of Illinois, I intend to utilize the chairmanship of this committee to take up the question of unfair trading practices with officials of countries discussed during this hearing.

I think we have found, as I have in, say, the soybean field, by calling ambassadors, foreign ministers, and sometimes chiefs of state, we can point out to them the necessity of establishing a long-term relationship with us, not a policy that causes them to yield and give in to the pressures of the agricultural community, but to recognize the responsibility that we have not only to provide for the defense of Europe and the defense of the free world, but in order to do that, we have to have trade.

We have to be able to sell to Third World countries. We have to sell to European countries. We have to be able to sell to Japan, and the stronger the voice, the more we use the advantage we have.

This is the only committee chairmanship that exists in the Middle West, actually, and it's the most important and powerful committee that we can have to get our word across to foreigners abroad. Certainly when we see what remedies are taken, we will want to see that we take into account the balanced position that must be given to the U.S. economy.

But I do consider the steel industry an extraordinarily important and vital industry to our national security interests. It must be a healthy industry, and I think that this testimony will bring us right up to date as to what the industry is doing.

I appreciate very much everyone participating.

The hearing is adjourned.

[Whereupon, at 1 p.m., the committee adjourned, subject to call of the Chair.]

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